

# **EXHIBIT 14**



## INITIATING COVERAGE

January 25, 2010

<b>SIRIUS XM (SIRI)</b>	
<b>ENTERTAINMENT</b>	<b>RATING:</b> BUY
	<b>PRICE:</b> \$0.68
	<b>PRICE TARGET:</b> \$1.00
<b>BARTON CROCKETT</b> 212-632-6625 barton.crockett@lazardcap.com	<b>MARKET CAP:</b> \$4.4 B
<b>VICTOR B. ANTHONY</b> 212-632-1882 victor.anthony@lazardcap.com	<b>RUT:</b> 618
	<b>S&amp;P 500:</b> 1,097
SOURCE: FactSet	

**SIRI: Serious leverage; initiating coverage with BUY rating and \$1.00 price target**

- We are initiating coverage of Sirius XM with a BUY rating and \$1.00 price target. After surviving a close brush with bankruptcy in early 2009, Sirius XM has falling costs, more than 18.5M loyal subscribers accepting price hikes, entrenched growth via factory installs in most new cars, and limited debt maturities until 2013, when rising cash flow should make refinancing easy.
- Subscribers accepting higher prices; guidance beatable. In 3Q09, Sirius XM began phasing in an effective 15% price hike, passing through costs for music rights. This followed steps earlier in the year to charge more for second radios and online access. Yet, since then, churn rates have improved, suggesting subscribers are very loyal and willing to pay higher rates. We see the music rights fee driving \$52M of revenues in 2009 and \$256M in 2010, helping push 2009E pro forma adj. EBITDA to \$425M, above guidance for over \$400M, and 2010E EBITDA to \$571M, up 35%, versus guidance for 20% growth.
- No taxes for a decade, supporting price target. Because of past losses, Sirius XM has a mammoth \$6.8 billion of NOL carryforwards, shielding it from taxes for at least a decade. We estimate the NPV of the NOLs at \$1.8B, and include it in EV. Our \$1.00 price target assumes an EV of 13.5x 2010E EBITDA, a growth premium supported by our DCF. Risks include rising churn, growth of online radio to car via mobile Internet, and falling new car conversion rates.

DECEMBER YEAR	2008	2009E					2010E
		1Q09A	2Q09A	3Q09A	4Q09	YEAR	
Revenue (M)	\$2,436.7	\$605.5	\$607.8	\$629.6	\$680.6	\$2,523.6	\$2,767.4
EBITDA (M)	\$(136)	\$109	\$132	\$106	\$90	\$437	\$578
EPS	\$(0.30)	\$(0.02)	\$(0.05)	\$(0.05)	\$(0.02)	\$(0.13)	\$(0.00)
FCF/S	\$(0.15)	\$0.01	\$0.01	\$0.02	\$0.00	\$0.03	\$0.05

CAPITALIZATION		VALUATION		2008	2009E	2010E
Shares Outstanding (M)	6,445.6	P/E	NM	NM	NM	
Total Net Debt (M)	\$2,597.7	Rel. to S&P 500	NM	NM	NM	
Enterprise Value (M)	\$6,998.8	EV/EBITDA	NM	16.0x	11.9x	
Total Debt / Capitalization	100%	FCF Multiple	NM	12.4x	13.2x	

*Effective May 10, 2005, Lazard Frères & Co. LLC ("LF&Co.") transferred its capital markets business (which includes equity research, syndicate, sales and trading) to a new privately-held company, Lazard Capital Markets LLC, which is neither owned nor controlled by LF&Co. LF&Co., which is part of publicly-traded Lazard Ltd, has retained, among other things, its investment banking business (including its mergers and acquisitions and financial restructuring practices). Please see pages 64-66 for important disclosures and analyst certification.*

**KEY DRIVERS TO MONITOR**

- 1) Pricing leverage
- 2) Cost reductions
- 3) New car penetration rates

**TRADING / DIVIDEND DATA**

52-Week Range	\$1-\$0
Avg. Daily Trading Volume (000)	30,389
Dividend / Yield	\$0.00 / 0.0%
Share Float (M)/% Sh. Out	3747 / 58.1%

**KEY RISKS TO MONITOR**

- 1) Competition from online radio to car via mobile Internet
- 2) Rising churn, or falling new car conversion rates
- 3) Sub-par cash flow could impair Sirius' ability to repay or refinance debt

**BENCHMARKS**

ROIC	NM
Book Value P/S	\$0.00
Price/Book	323.4x
Free Cash Flow Yield	2.4%
Projected 3-year EPS Growth Rate	NM
Institutional Ownership	18%

**FORECAST PERCENT CHANGE (Y/Y)**

DECEMBER YEAR	2008	2009E				YEAR	2010E
		1Q09A	2Q09A	3Q09A	4Q09		
Revenue	+18%	+5%	+1%	+3%	+6%	+4%	+10%
EBITDA	NM	NM	NM	NM	+183%	NM	+32%
EPS	NM	NM	NM	NM	NM	NM	NM
FCF/S	NM	NM	NM	NM	-94%	NM	+49%

**COMPANY DESCRIPTION**

After the merger on July 29, 2008, New York-based Sirius XM Radio, Inc. is the U.S.' only satellite radio service provider, operating both the XM and Sirius services. Each of these satellite radio services offers over 100 channels of talk, sports, and mostly commercial-free music (over 130 channels on Sirius and over 170 on XM), for standard monthly subscription rates of \$12.95, excluding additional fees for music rights. Premium-priced options are available, including "best of" packages that supplement the core channel lineup for each service with selected popular content from the other offering. Sirius and XM radios are pre-built into more than half of all new cars sold in the U.S. We estimate that at year-end, satellite radios were factory installed in more than 27 million cars on the road, or about 11% of the total. We expect the tally of vehicles with satellite radio pre-installed to rise to more than one-third of cars on the road over the next decade. Combined, XM and Sirius have about 18.5 million subscribers, of which just over three million are on promotional plans from automakers, and the rest are full-paying subscribers. More than 10 million Sirius XM subscribers are using factory-installed radios. The balance are using "aftermarket" radios – purchased at retail and installed by the buyer, a retailer, mechanic or car dealer. Sirius XM currently offers the most popular subscription radio services accessed in the car, at home, or online. Sirius XM is headquartered in New York City.



## INVESTMENT THESIS

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### SUMMARY

After recovering from a close brush with possible bankruptcy in early 2009, Sirius XM has several big positives on the horizon, in our opinion, including 1) solid revenue growth, tied to an ability to raise rates, retain subscribers, and grow penetration of satellite radio in new and used cars, and 2) falling costs, due to merger synergies and a ratcheting down of spending on content, transmission facilities, and a costly automaker distribution deal. The combination of these two factors will, we believe, produce sharp, multi-year growth in cash flow that should allow Sirius XM to use \$6.8 billion of net operating loss (NOL) carryforwards to avoid income taxes for at least a decade. We believe that a recovery in new car sales to a level on par with the average since 1967 would drive significant upside to our earnings outlook. We also see long-term potential upside from a possible low-end, ad-supported version of the service in the growing number of cars on the road with factory-installed satellite radios.

We initiate coverage of Sirius XM Radio with a BUY rating and a \$1.00 price target.

### SUMMARY REASONS TO BUY

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**Loyal subscribers willing to absorb price hikes.** Satellite radio appeals to a substantial niche of more than 18.5 million subscribers, who, we believe, are willing to pay more. Despite a requirement from the FCC as a condition of the July 29, 2008, merger that prices be capped for 36 months, Sirius XM is finding ways to extract more money from its subscriber base. One way the company is doing this is by passing on costs for music rights royalties, which was allowed as part of the FCC merger approval. In 3Q09, Sirius XM began charging an extra \$1.98 per month for standard subscriptions and \$0.97 per month for family plan subscriptions to cover the cost of music rights that were already part of its expense base. Sirius has also charged more for online access. Despite higher prices, churn rates have improved, with self pay churn down to 1.97% in 4Q09, from 2.0% in 2Q09, and OEM promotional subscriber conversion rates in the same period improving 200 basis points in the same period to 46.4%, suggesting that subscribers are loyal and willing to pay higher prices.

**New and used car growth should offset retail declines.** Automakers are factory-installing satellite radio in most new cars sold in the U.S., providing long-term support to subscriber growth. We estimate that satellite radios were built into 53% of new cars sold in the U.S. in 2009, and we forecast an increase to 62% in 2010, as Toyota ramps up production. We see 62% as a sustainable, long-term penetration rate. This compares to penetration south of 10% in 2004. Reported conversions from free trials with new cars to paying subscribers have remained healthy, above 40%, despite the steep growth in penetration.

**Rising revenues, falling costs drive cash flow ramp.** We forecast a huge ramp in adj. EBITDA and free cash flow, driven by moderate revenue increases over a flat-to-declining cost base, with a big lift from merger synergies. We anticipate a



\$574 million positive swing in pro forma adj. EBITDA in 2009, to \$425 million, versus a loss of \$136 million in 2008. Our 2009 estimate is above guidance of "over \$400 million." The driver of the 2009 adj. EBITDA swing is a \$487 million decline in pro forma expenses, largely attributable to merger synergies. In 2010, we forecast 32% growth in adj. EBITDA, to \$571 million, versus guidance for 20% growth.

**No taxes for at least a decade.** Due to heavy capital expenditures to launch satellites, spending on SAC to acquire subscribers and ramp up automaker distribution deals, and no annualized profits to date, Sirius XM has mammoth net operating loss (NOL) carryforwards of \$6.8 billion to apply against federal and state income taxes, expiring on various dates beginning in 2023. We believe that Sirius XM's swing into meaningful profits over the next several years will allow it to utilize these NOLs to shield profits from taxes, prompting us to provide credit for the NOLs in our valuation work. We estimate the net present value of NOLs used through 2020 at nearly \$1.8 billion. We do not see the company paying meaningful income taxes for at least a decade.

**Exposure to auto recovery.** A source of potential upside to our Sirius model is an auto sales recovery. We currently assume an 11.3 million new car SAAR in 2010. However, if car sales were to return to the average since 1967 of 14.2 million, we estimate that Sirius XM would add at about 1.2 million additional subscribers per year, which would drive \$90 million annualized EBITDA upside, a 15% lift to our current estimates.

**Potential for new ad based model.** We also see potential over time for Sirius to layer in a new, ad-based model on top of its core subscription model. Sirius XM radios were built into nearly 27 million new cars by the end of 2009, we estimate, a total that we believe will top 70 million by 2015. This suggests that at some point Sirius could potentially active a limited content, ad-based, free service, available to all radios, which, based on the potential audience, we believe could potentially drive \$100 million of incremental, high margin ad revenues.

## RISKS

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**Rising churn and falling subscriber conversion rates.** Subscribers could turn out to be more price sensitive than we expect or have seen so far. Alternatively, Internet radio used in the home and via smart phone while driving could depress demand for satellite radio more than we anticipate. We believe that satellite radio's strengths, including more resources to invest in exclusive, ad-free, original programming than Internet radio and easier in-car use because of dashboard installations by carmakers will help it retain and modestly grow its subscriber base, reinforcing our belief that it can also survive Internet radio competition, but we could be wrong.

**Meaningful earnings shortfalls could create debt risks.** We assume that cash on hand and free cash flow is sufficient to cover debt maturities of \$82 million in 2009, \$400 million in 2011 and \$245 million in 2012. However, we could be wrong. We also assume that steep growth in EBITDA will allow the company to



easily refinance more than \$1.8 billion of debt maturing in 2013, but we could be wrong.

**Sirius could fail to renew Howard Stern.** Sirius could fail to renew the five-year, \$500 million signature content deal with Howard Stern that expires at the end of 2010. This would reduce programming costs, but would also likely result in subscriber losses.

**There are technical risks tied to the shares.** In 2010, Liberty Media, which gained control of 40% of the company through Series B Preferred shares issued in March 2009 as part of a loan package that kept Sirius XM out of bankruptcy, gained a right previously withheld to hedge up to half of its stake. In 2011, Liberty gains the right to sell its highly profitable Sirius investment. These rights could create a seller's overhang on Sirius XM shares, although it's also possible that Liberty could seek to buy the balance of Sirius it does not already own. Also, Sirius may be compelled to undertake a reverse stock split in order to retain its NASDAQ stock listing. Reverse splits have tended to coincide with negative returns for shares, even though splits have no economic impact and no effect on valuation multiples or aggregate earnings. We believe that growth in Sirius XM's earnings and cash flow will be more important for Sirius' highly liquid shares than these technical factors, but we could be wrong.

#### **VALUATION AND PRICE TARGET**

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Our price target of \$1.00 is based on a 13.5x EV multiple vs. 2010E pro forma adj. EBITDA. We believe that this multiple is supportable for a company growing adj. EBITDA more than 30%.

The multiple is also supported by our DCF analysis, which assumes in the base case a WACC of 10%, with a terminal year in 2020 and a base terminal year growth rate of 3.0%, consistent with a terminal year adj. EBITDA multiple of 9.7x. Such a terminal year multiple, we believe, would be consistent with a view of satellite radio as entrenched, mature, and holding its own against potential new competitors.

#### **DETAILED REASONS TO BUY**

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##### **LOYAL SUBSCRIBERS WILLING TO ABSORB PRICE HIKES**

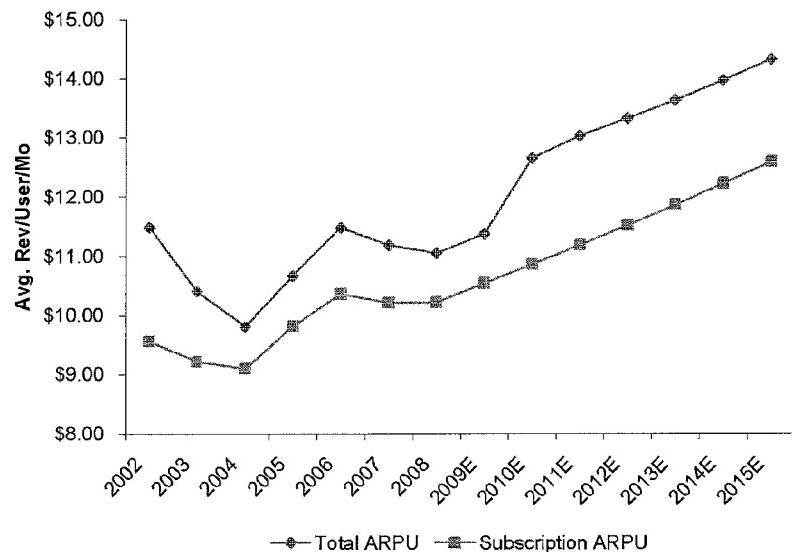
Satellite radio appeals to a substantial niche of more than 18.5 million subscribers, who, we believe, are willing to pay more.

Despite a requirement from the FCC as a condition of the July 29, 2008, merger that prices be capped for 36 months, Sirius XM is finding ways to extract more money from its subscriber base. One way the company is doing this is by passing on costs for music rights royalties, which was allowed as part of the FCC merger approval. In 3Q09, Sirius XM began charging an extra \$1.98 per month for standard subscriptions and \$0.97 per month for family plan subscriptions to cover the cost of music rights that were already part of its expense base.



We are encouraged that subscribers are absorbing what effectively is a 15% price hike and sticking with the service. In 4Q09, self-pay churn actually dipped 3 basis points to 1.97%, versus 2Q09 and 3Q09. Promotional conversion rates improved 200 basis points in 4Q09 to 46.4%, versus 2Q09. In 3Q09, 40% of subscribers began paying the music rights fee. In 4Q09, we assume that more than half of subscribers began to pay the extra fee.

#### Exhibit 1. Rising ARPU Outlook



Source: LCM estimates, company reports

Over the next few quarters, we believe that most of the remaining subscribers will be hit with the extra fee, which kicks in with new subscriptions or renewals. When fully implemented by 2011, we see a net \$1.20 lift to total consolidated average monthly revenue per user (total ARPU). We estimate a \$52 million lift to 2009 revenues, with nearly 100% flow-through to pro forma adj. EBITDA. We see a \$252 million lift in 2010.


**Exhibit 2. Sirius XM Price Plans**

Plan	Price/mo	Key Features
Everything, Standard	\$12.95	Standard offer, all channels (XM or Sirius)
Everything, Family Friendly	\$11.95	\$1 off to exclude mature programs
Everything and Best of, Standard	\$16.99	Standard offer, plus popular channels from other service
Everything and Best of, Family Friendly	\$14.99	\$2 off to exclude mature programs
All in One	\$19.99	Both services on one radio. Requires MIRGE SXMR1 radio
All in One -- Family Friendly	\$17.99	\$2 off to exclude mature programs
Mostly Music or News, Sports & Talk	\$9.99	65 channels of Music, or 50+ channels of News, Sports & Talk
Online Only	\$12.95	Only listen online
Online Addition	\$2.99	Incremental cost to existing subscription
A La Carte Gold	\$14.99	Personalize pkg of 100 channels, including Best of
A La Carte	\$6.99	Requires a la carte capable radio Pick 50 channels, + \$0.25 per premium channel, \$12.95 max Sports bundles extra. Requires a la carte capable radio
Family Plan -- Each Additional Subscription	\$10.99 \$8.99	Includes "Best of" Standard, no "Best Of"
Multi-Year Discounts		
3 Year, Best of	\$458.00	25% discount vs. per month
3 Year, Standard	\$349.00	25% discount vs. per month
2 Year, Best of	\$322.00	21% discount vs. per month
Copyright royalty fee, standard subscription	\$1.98	
Copyright royalty fee, Family Plan	\$0.98	

Source: LCM Research, Sirius and XM Websites

We see another long-term lift to ARPU from a mix-shift to premium-priced plans. As part of the merger approval process, Sirius XM agreed to offer a range of pricing plans, including lower-priced "A La Carte" and combined service plans available only on a limited range of radios sold at retail. However, the most popular new plans for new subscribers, in our view, are the "best of" plans, which are available on all radios. These plans cost \$16.99 per month for a standard channel lineup, plus a selection of the popular content from the other provider's service, \$4 per month more than standard subscription plans. We understand that about 10% of new subscribers are signing up for the new "best of" plans, while virtually no subscribers are signing up for the lower-priced plans.

In March 2009, Sirius XM also pushed through price hikes in areas not covered by the FCC price caps. The cost of a second "family plan" subscription was increased to \$8.99 from \$6.99. We believe that just under one-fifth of subscribers are on these discounted plans. Sirius XM also began charging satellite subscribers an extra \$2.99 per month for online access. Previously, online access was bundled with a satellite subscription at no extra charge. After the merger, Sirius dropped XM's \$6.99 online-only subscription, and standardized with \$12.95 online-only pricing for both services.

We view these steps as more important long term for ARPU growth than new premium-priced infotainment services, including traffic, back seat video, weather, sports tracking, fuel and movie listings, airport and flight conditions and red light cameras. We do not see these as generating meaningful enough usage to be important drivers of ARPU, at least for the next several years.

In 4Q08, pro forma subscription ARPU increased 3.2% y/y. In 1Q09, it rose 0.6%, even though Sirius actively pushed multi-year discounts to maximize cash



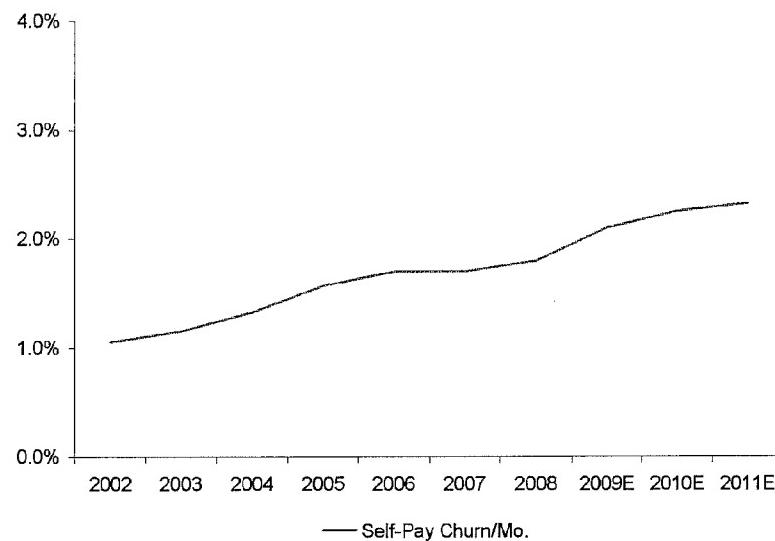
in the door as it battled debt constraints. In 2Q09 and 3Q09, subscription ARPU increased more than 3% y/y. The 3Q09 figure excludes the lift from music rights fees.

We expect the mix-shift to continue to boost subscription ARPU over the next several years. Plus, by 2011, when the FCC rate standstill expires, we expect Sirius XM to push through inflationary rate hikes. The combination of mix-shift and inflation is captured in our model with 3% yearly growth in subscription ARPU, excluding music rights fees.

We anticipate that the music rights fee will eventually erode loyalty to a modest degree. We assume a 23 basis point hike in self-pay churn in 2010 over 4Q09 to 2.20%. We assume that OEM conversion rates deteriorate 200 basis points in 2010 to 44.4%. However, the 4Q09 performance suggests that our assumptions may be beatable.

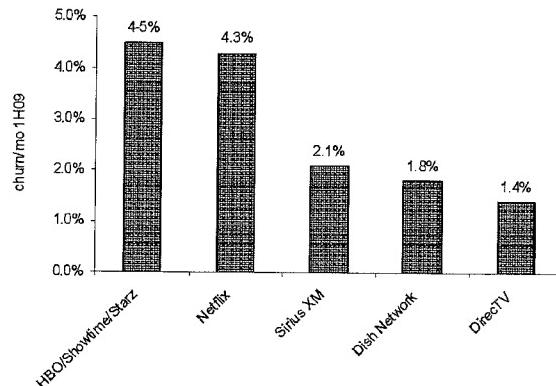
Sirius XM's total self-pay churn rates have been rising modestly. We think this is a result of rising penetration, as the company moves beyond loyal, early adopters.

#### **Exhibit 3. Modestly Rising Churn Trend**



*Source: LCM estimates, company reports.*

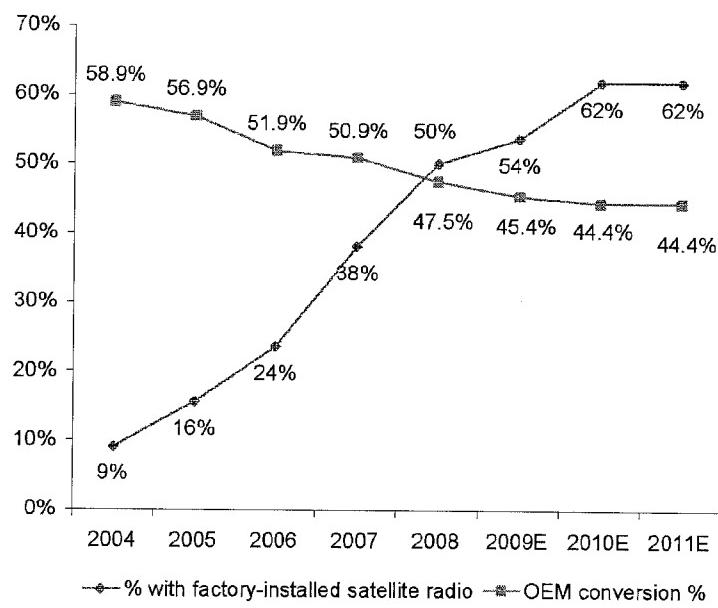
Yet, churn rates compare favorably to other subscription entertainment services.

**Exhibit 4. Churn Comparisons: Sirius XM vs. Other Media**

Source: Sirius XM presentation, October 2009, citing company reports and estimates

#### **NEW AND USED CAR GROWTH SHOULD OFFSET RETAIL DECLINES**

Automakers are factory-installing satellite radio in most new cars sold in the U.S., providing long-term support to subscriber growth.

**Exhibit 5. Promo Trial Conversion vs. New Car Penetration**

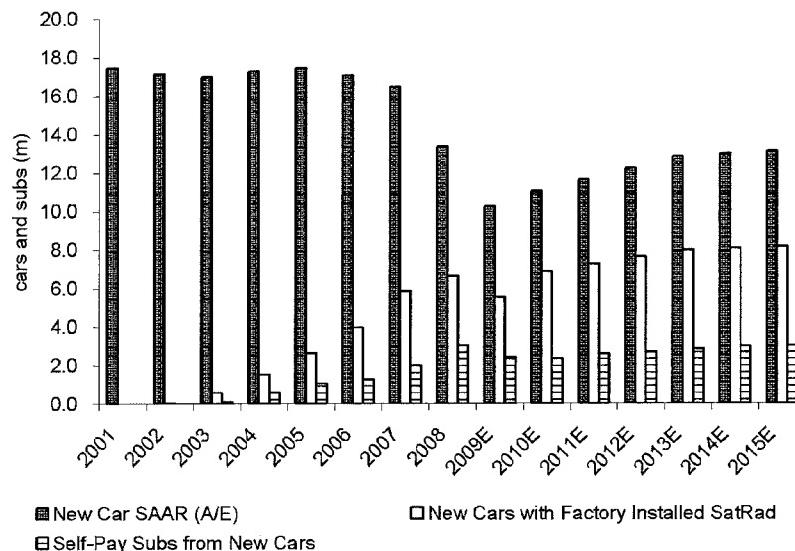
Source: LCM estimates, company reports



We estimate that satellite radios were built into 53% of new cars sold in the U.S. in 2009, and we forecast an increase to 62% in 2010, as Toyota ramps up production. We see 62% as a sustainable, long-term penetration rate. This compares to penetration south of 10% in 2004. Reported conversions from free trials with new cars to paying subscribers have remained healthy, above 40%, despite the steep growth in penetration, which, all else equal, would tend to depress conversion. As satellite radio penetrates more new cars, it moves down the pricing ladder, and the cost of satellite radio becomes a bigger concern for a car buyer.

In round numbers, if the Seasonally Adjusted Annualized Rate (SAAR) of sales of new cars is just above 10 million, nearly six million new cars are being sold annually with satellite radios pre-installed. Of those, some 2.4 million are becoming full-paying subscribers, after the promotional period included with the new car purchase ends. Those promotional periods last three months to a year. This means that roughly one-quarter of all new car sales are resulting in new paying subscribers. This is an entrenched, long-term support for subscriber totals.

**Exhibit 6. New Car Subscriber Build**



Source: LCM estimates, company reports, Automotive News

Installation of satellite radio into new cars over time is creating a used car opportunity. We estimate that, by the end of 2009, there were nearly 27 million cars on the road with satellite radio installed. We expect car makers to add about 6-8 million new cars to the road each year with satellite radio installed between now and 2015. That means that, by 2015, the number of cars on the road with satellite radio pre-installed should be more than 70 million, or more than a quarter of what by then should be more than 250 million cars in the U.S.

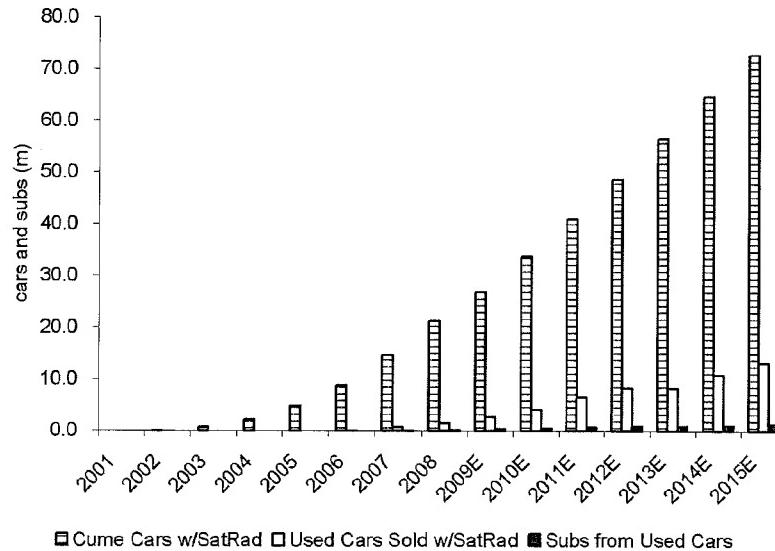


New cars are sold, on average, after about 3.5 years; thus, we estimate that, by 2012, the number of used cars sold with satellite radio pre-installed should be close to eight million. Coincidentally, that would be close to the total of new cars sold with satellite radio. While one-quarter of the new car sales are resulting in new paying subscribers, we are assuming that only about 10% of used car sales result in new subscribers. This conversion rate seems consistent with the rough guidance from Sirius XM for several hundred thousand used car subscriber additions in 2009.

We note, however, that Sirius XM is getting more focused, and has the potential over time to get better at converting used car buyers into new subscribers. For instance, Sirius XM is pairing with its automaker partners' certified pre-owned programs to promote satellite radio subscriptions. Automakers receive a share of ongoing subscription revenue for the life of a car, so they have an incentive to work with Sirius XM. Automakers who currently promote satellite radio in pre-owned car sales programs are Acura, Audi, BMW, Chrysler, Honda, GM, Mercedes-Benz, Porsche, Volkswagen, Volvo and, on a regional basis, Ford.

Sirius is also working with dealers. The company has a relationship with CarMax, the largest U.S. used car retailer, to promote Sirius XM in 50% of all CarMax locations. CarMax has installed satellite radio on about 22% of its inventory. Sirius is testing other new programs with independent dealers, who handle about a quarter of the 40 million annual used car sales in the U.S. Sirius XM is also exploring ways to work with insurance providers and brokers to find out who is buying cars with satellite radios installed, and to market satellite radio to them.

#### **Exhibit 7. Used Car Subscriber Build**

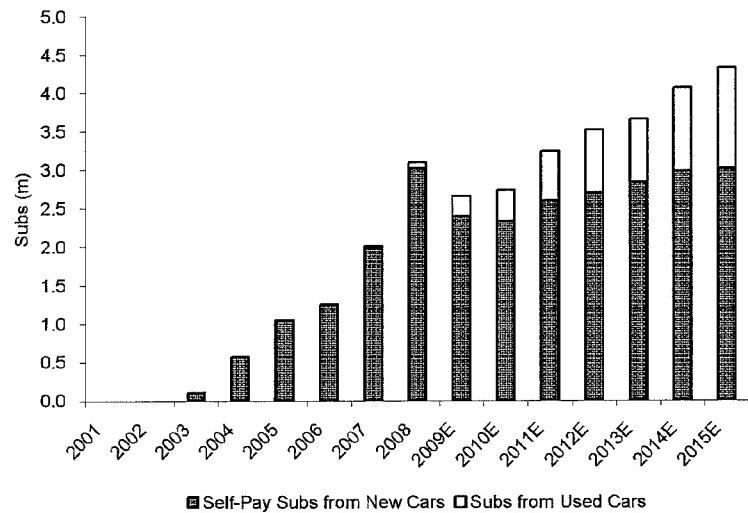


Source: Company reports, LCM estimates



Overall, between used cars and new cars, we expect to see about 3-4 million new full-paying subscribers come to satellite radio yearly through 2015.

**Exhibit 8. Self-Pay Subs from New and Used Cars**

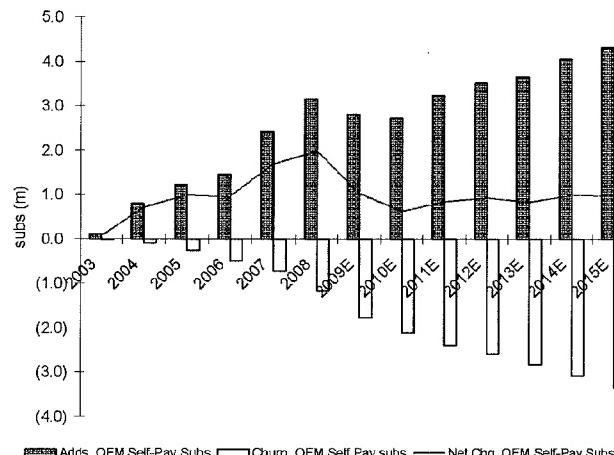


Source: Company reports, LCM estimates

This offsets churn, so that net growth in OEM self-pay subs (non promotional subs from new and used cars, less churn) should be near one million per year for the next several years.



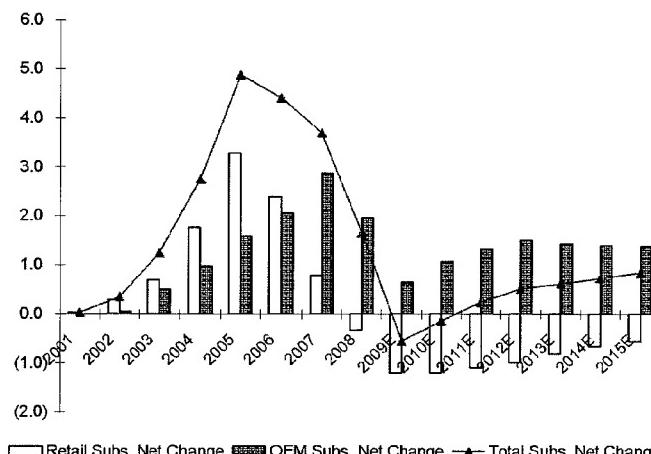
### Exhibit 9. Net Change in OEM Self-Pay Subscribers



Source: Company reports, LCM estimates

The growth in OEM self-pay subs should offset declines in retail subs – those who buy satellite radios at retail and self-install, or have the retailer, a mechanic, or a car dealer do it.

### Exhibit 10. Net Sub Growth Outlook: OEM vs. Retail



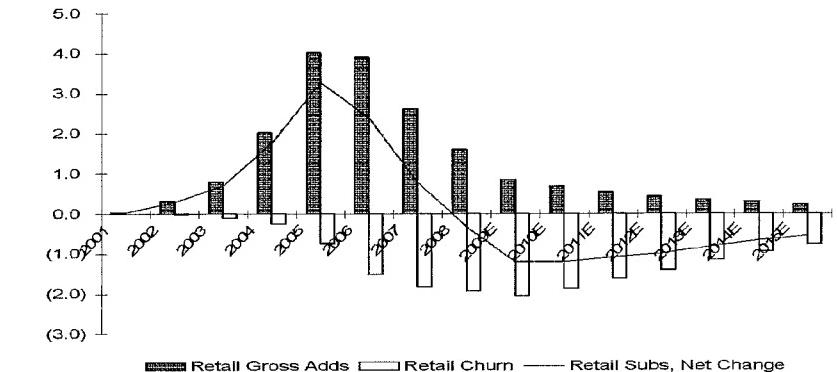
Source: Company reports, LCM estimates

Retail subscribers total nearly 8 million, versus nearly 10.5 million OEM subscribers. We estimate that Sirius XM will lose more than 1 million retail subs this year. Retail subs are down because satellite radio now is widely pre-installed in new cars, where it wasn't before. Also, Howard Stern's launch on Sirius



caused a spike in retail sales that could not be sustained after his fans moved over. We are assuming that gross sales of new retail subscriptions flatten out in 2010 and then decline in perpetuity at a 20% rate, and that net retail subs fall because churn will be larger than new sub additions. However, absolute retail declines, mathematically, will diminish as the retail base shrinks.

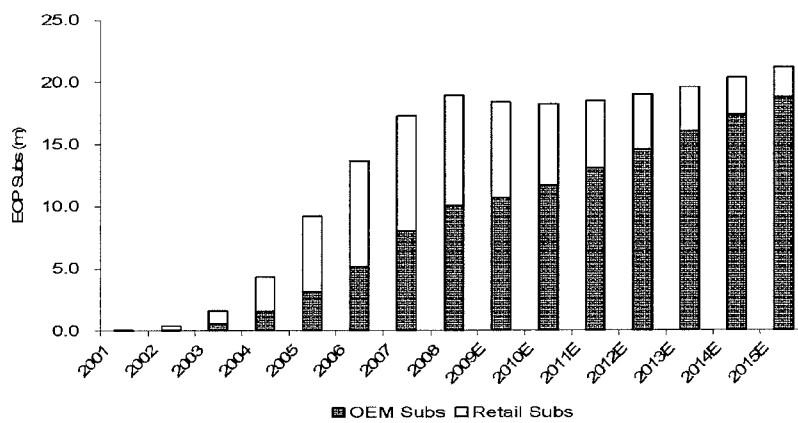
#### Exhibit 11. Drivers of Net Change in Retail Subscribers



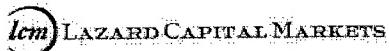
Source: LCM estimates, company reports

Meanwhile, we believe that the lift from the OEM channel will remain strong. So, over time, Sirius XM's subscriber base should skew primarily to OEM.

#### Exhibit 12. OEM vs. Retail Total Subscriber Outlook



Source: Company reports, LCM estimates

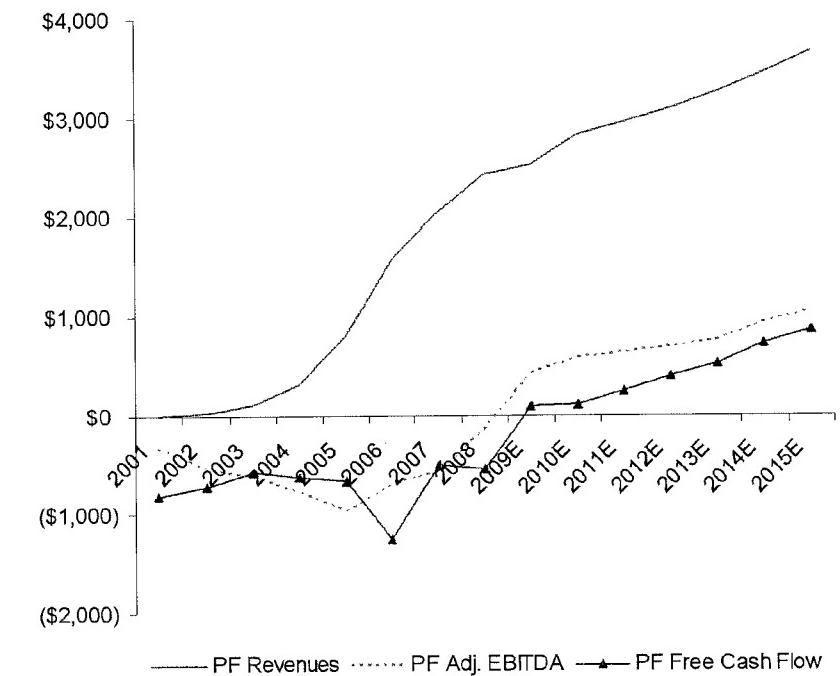


### RISING REVENUES, FALLING COSTS DRIVE CASH FLOW RAMP

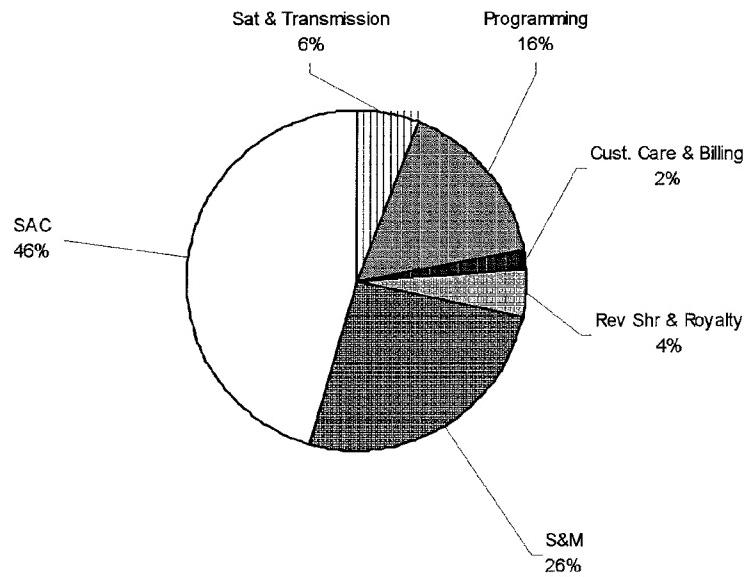
We forecast a huge ramp in adj. EBITDA and free cash flow, driven by moderate revenue increases over a flat-to-declining cost base, with a big lift from merger synergies. We anticipate a \$562 million positive swing in pro forma adj. EBITDA in 2009, to \$425 million, versus a loss of \$136 million in 2008. Our 2009 estimate is above guidance of “over \$400 million.” The driver of the 2009 adj. EBITDA swing is a \$487 million decline in pro forma expenses, largely attributable to merger synergies.

In 2010, we forecast 32% growth in adj. EBITDA, to \$571 million, versus guidance for 20% growth.

**Exhibit 13. Huge Ramp Seen for Cash Flow**

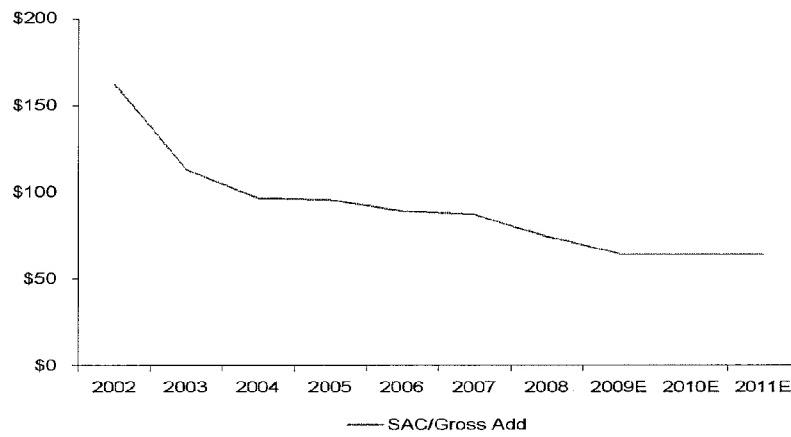


Source: LCM estimates, company reports

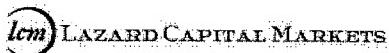

**Exhibit 14. Drivers of 2009E Pro Forma Expense Decline**


*Source: LCM estimates, company reports*

Cost cuts are across the board. SAC per gross add is falling due to migration to less-expensive, newer-generation radios in new car installations, and growth in SAC-free gross adds from used cars.

**Exhibit 15. SAC/Gross Add is Declining**


*Source: LCM estimates, company reports*



A reduction in competition has allowed the pro forma company to pare back marketing. Historically, Sirius pursued a model of spending less on marketing than XM, and spending more on talent like Howard Stern. Sirius' strategy succeeded in reversing a substantial brand awareness gap and making awareness of Sirius larger than that for XM, suggesting that the company's strategy was successful. With the merger, marketing spending was slashed, although the company planned a bump in marketing spending in 4Q09 and the first three quarters of 2010 to reestablish a brand that was diminished during the extended merger approval fight preceding the XM deal and the battle to avoid bankruptcy.

Programming costs are falling, driven by less competition for talent between Sirius and XM. While totals weren't disclosed, Sirius XM is paying meaningfully less for the most recent signature content deals that renewed – Martha Stewart and Oprah. We expect reductions for other new content deals as they renew.

The next big content deal renewals include Howard Stern's five-year, \$500 million deal, which ends at the end of 2010; the seven-year, \$200 million deal between Sirius and the NFL that ends after the 2011 season; and the five-year, \$108 million deal with NASCAR that ends in 2012. The 10-year, \$600 million deal that XM struck with Major League Baseball ends in 2015. XM's 10-year, \$100 million deal with the NHL, two-thirds subsidized by the separate company that operates XM Canada, also ends in 2015.

Please see our discussion of the Howard Stern deal on page 30.

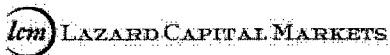
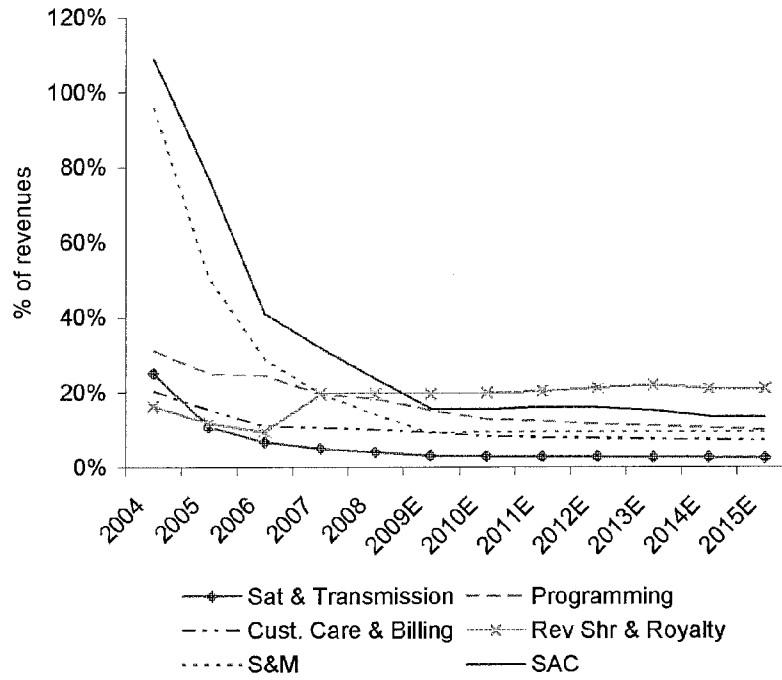
#### **Exhibit 16. Key Content and Automaker Deals**

Content Partner	Service	Deal Terms
NHL	XM, XM Canada	\$100m, 10yrs, thru 2015
Major League Baseball	XM	10 yr, \$600m, thru 2015
Oprah	XM	3yrs, \$55m thru 4Q09. Expect renewal at much lower rate
Howard Stern	Sirius	5 yr, \$500m (\$100m stock), ends end of 2010
NFL	Sirius	7yr, \$200m, thru 2011 season
NASCAR	Sirius	\$108m over 5 yrs to 2012
Martha Stewart	Sirius	\$30m, 4yrs, thru mid 2009, Renewed at much lower rate.

#### **Key Automaker Deals**

Automaker	Service	Key Points
GM	XM	Steep rev share, restructure 2013, renewed to 2020
Honda	XM	Extended in 2007 to 2016
Toyota	XM	Extended 2007 to 2017
Hyundai	XM	Standard feature. Started 2005 to 2014
Nissan	XM	Extended 2005, assume 10yr deal
Chrysler	Sirius	Extended in 2008 to 2017
Ford	Sirius	Extended in 2007 to 2016
Volkswagen	Sirius	Started 2006 to 2012
BMW	Sirius	Extended 2005 to 2008
Mercedes	Sirius	Extended 2005 to 2012

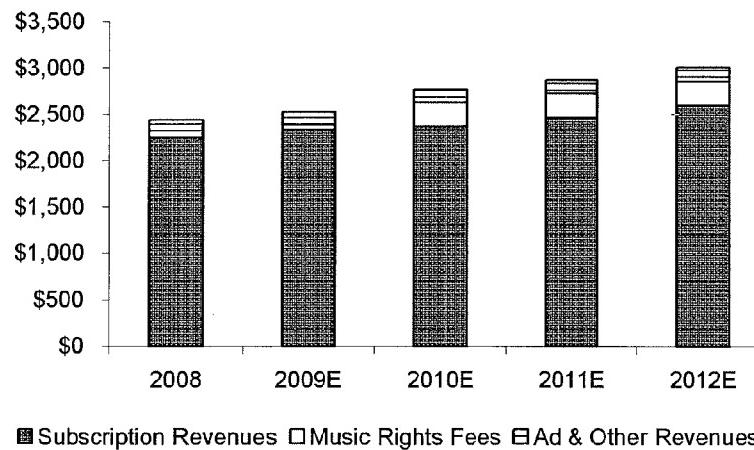
Source: LCM Research, company disclosures


**Exhibit 17. Expenses Fall as Percentage of Revenues**


Source: LCM Research

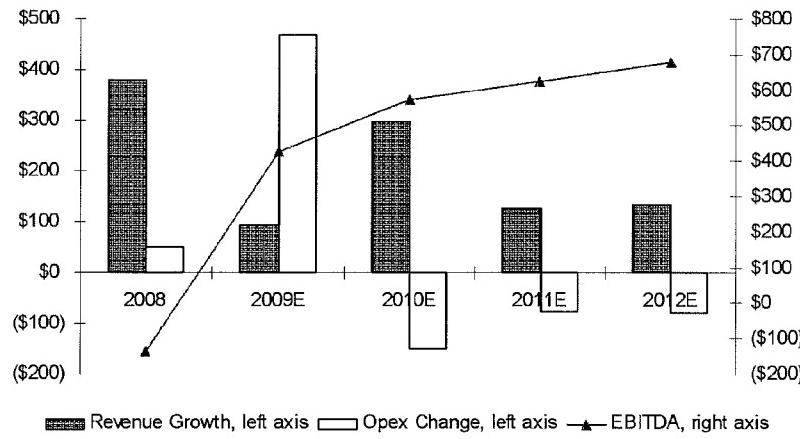
Customer care and billing costs are falling as a percentage of revenues due to scale economies on telephone customer service operations. Sirius XM is also consolidating terrestrial repeater networks and backup satellites, reducing transmission costs. We believe that Sirius XM has also negotiated a meaningful reduction in costs under its least profitable distribution deal, with General Motors. We believe that some costs under the GM agreement were reduced in early 2009. We expect another meaningful reduction in costs via an already inked renewal of the deal in 2013 through 2020.

The layering in of music rights fees, subscription ARPU growth, and a modest rebound in advertising is pushing up revenues...

**Exhibit 18. Revenue Growth Drivers**

*Source: LCM estimates, company reports*

...and driving the steep adj. EBITDA ramp.

**Exhibit 19. EBITDA Drivers: Revenue Growth, Cost Controls**

*Source: LCM Research*

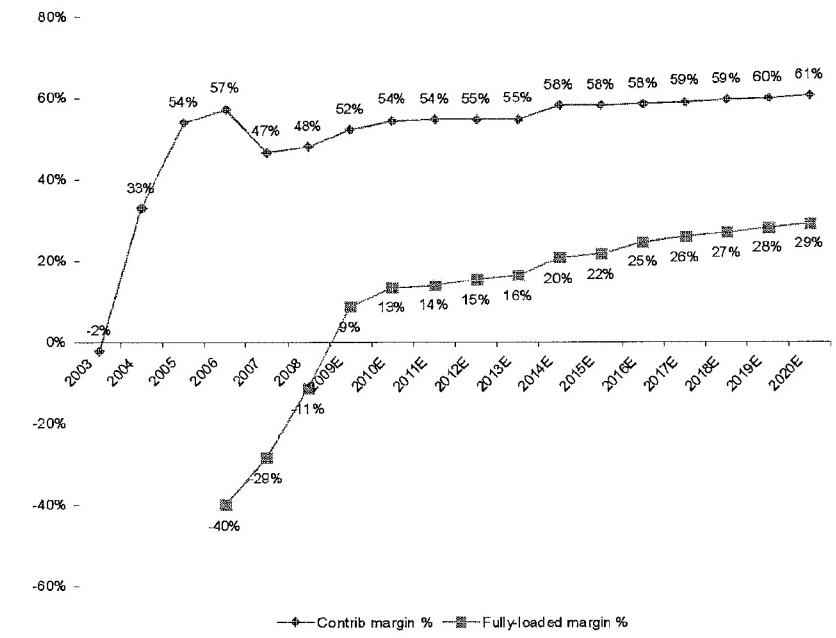
### BETTER SUBSCRIBER ECONOMICS

We calculate subscriber economics both on a contribution basis – variable lifetime subscriber revenues less variable costs, including SAC – and on a fully loaded basis, allocating fixed costs per subscriber. This exercise indicates that the lifetime contribution margin for subscribers should rise from the high 40% range to the low 60% range over several years as the music rights fee kicks in, ARPU



grows, and SAC is stable to declining, mitigated by slowly rising churn. However, the fully loaded margin swings from negative to positive as fixed costs fall and subscribers grow, averaging down fixed costs per subscriber. Rising contribution margin also lifts the fully loaded contribution margin.

#### Exhibit 20. Contribution, Fixed Margin Outlook



Source: LCM estimates, company reports


**Exhibit 21. Sirius XM Distribution Channel Economics**

Channel Channel Channel Channel Channel Year	Retail	Used Cars	Chrysler	Toyota Hyundai Nissan	Kia	Ford	Honda	GM
+ Self-Pay Subs ARPU	\$12.95	\$12.95	\$12.95	\$12.95	\$12.95	\$12.95	\$12.95	\$12.95
+ Copyright ARPU	\$1.98	\$1.98	\$1.98	\$1.98	\$1.98	\$1.98	\$1.98	\$1.98
= Contribution ARPU	\$14.93	\$14.93	\$14.93	\$14.93	\$14.93	\$14.93	\$14.93	\$14.93
- Cust. Care & Billing	(\$1.05)	(\$1.05)	(\$1.05)	(\$1.05)	(\$1.05)	(\$1.05)	(\$1.05)	(\$1.05)
- GM Rev. Share								(\$4.00)
- Copyright Rev Share	(\$1.17)	(\$1.17)	(\$1.17)	(\$1.17)	(\$1.17)	(\$1.17)	(\$1.17)	(\$1.17)
- Other Rev Share	\$0.00	(\$2.73)	(\$2.73)	(\$2.73)	(\$2.73)	(\$2.73)	(\$2.73)	\$0.00
= Pre SAC Contrib CF/mo.	\$12.71	\$9.98	\$9.98	\$9.98	\$9.98	\$9.98	\$9.98	\$8.71
Pre SAC Contrib. Margin %	85%	67%	67%	67%	67%	67%	67%	58%
memo: self-pay churn/mo %	2.1%	2.1%	2.1%	2.1%	2.1%	2.1%	2.1%	2.1%
x Avg Life/Sub (yrs)	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
x 12 = Lifetime Pre-SAC CF	\$605	\$475	\$475	\$475	\$475	\$475	\$475	\$415
SAC/Promo Sub or Gross Add / Conversion %	(\$54)	\$0	(\$68)	(\$24)	(\$68)	(\$68)	(\$68)	(\$68)
= SAC/Self-Pay Sub	100.0%	100.0%	45.6%	35.6%	45.6%	45.6%	45.6%	45.6%
+ Payment by automaker	\$0	\$0	\$142	\$0	\$65	\$20	\$20	\$20
= Net SAC/Self-Pay Sub	(\$54)	\$0	(\$6)	(\$68)	(\$84)	(\$129)	(\$129)	(\$129)
Lifetime Contrib. CF/Self Pay Sub	\$551	\$475	\$469	\$408	\$392	\$347	\$286	
Contrib Margin %	77.5%	66.9%	66.0%	57.3%	55.1%	48.8%	40.3%	

Source: Company reports, LCM estimates

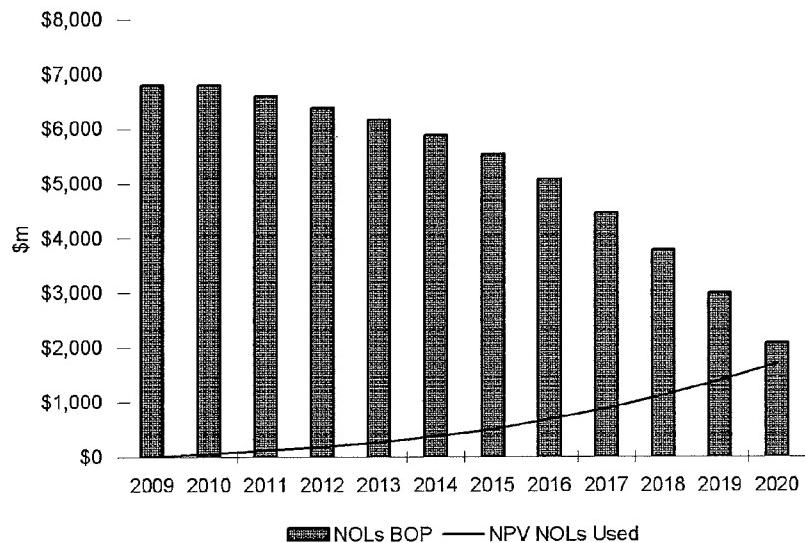
While retail appears to be Sirius XM's most profitable distribution channel, used cars are a close second, by our estimate. General Motors is the company's least profitable distribution channel, although we believe that the economics of the GM deal are improving, as Sirius has sought concessions from the automaker.

#### NO TAXES FOR AT LEAST A DECADE

Due to heavy capital expenditures to launch satellites and build both the XM and Sirius services, spending on SAC to acquire subscribers and ramp up automaker distribution deals, and no annualized profits to date, Sirius XM has mammoth net operating loss (NOL) carryforwards of \$6.8 billion to apply against federal and state income taxes, expiring on various dates beginning in 2023. We believe that Sirius XM's swing into meaningful profits over the next several years will allow it to utilize these NOLs to shield profits from taxes, prompting us to provide credit for the NOLs in our valuation work. We estimate the net present value of NOLs used through 2020 at nearly \$1.8 billion. We do not see the company paying meaningful income taxes for at least a decade.



Exhibit 22. Sirius XM Net Operating Loss Carryforward Outlook



Source: LCM estimates, company reports

### SUBSTANTIAL DE-LEVERAGING

Sirius XM's close brush with bankruptcy early this year was a result of frozen credit markets, coupled with the burdens of financing the XM merger. The shares bottomed out near \$0.05, as possible bankruptcy tied to an inability to handle a nearly \$200 million maturity for 2.5% convertible notes on February 17, 2009, loomed.

#### Liberty deal

At the last minute, Liberty Media struck a deal to provide liquidity, with up to \$530 million of loans (since repaid) and Series B preferred stock convertible into 40% of Sirius XM's equity, at an aggregate cost basis ascribed to Liberty of \$12,500. The deal closed on March 6, 2009. Since then, the rebound in Sirius' shares has boosted the value of Liberty's stake to \$1.8 billion, making this one of the best bottom-fishing deals of the recession. Liberty also has the right to appoint 40% of the members of Sirius XM's board of directors.

Liberty was prohibited from hedging its position in Sirius XM until December 31, 2009. The company cannot sell its position in Sirius XM until the two-year anniversary of the closing of the transaction in March 2011. Liberty is also prohibited from acquiring more than 49.9% of Sirius XM's equity until then. From March 2011 until March, 2012, if Liberty were to acquire more than 49.9% of Sirius XM, it would have to buy the whole company.


**Exhibit 23. Restrictions on Liberty's Sirius Holdings**

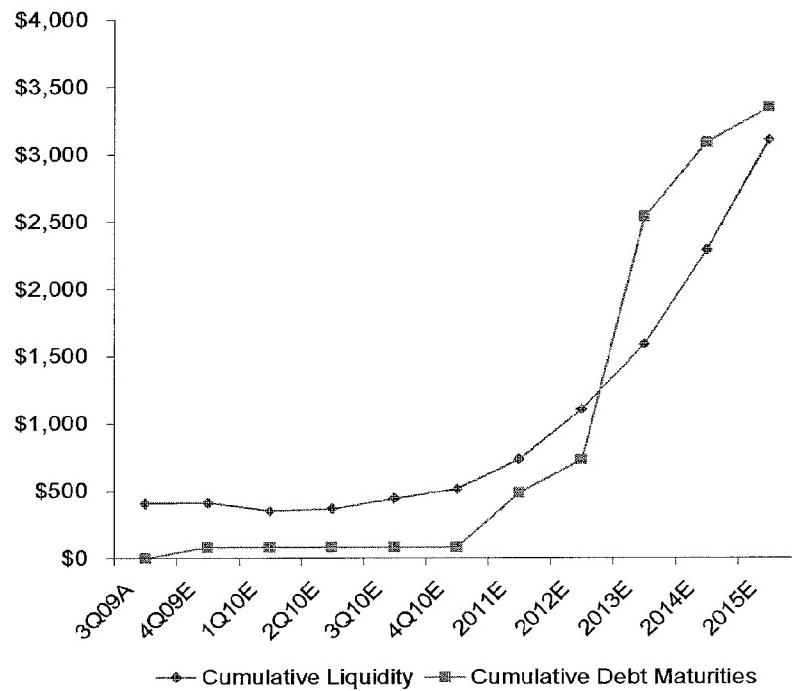
<b>Restriction</b>	<b>Detail of Restriction(s)</b>
Hedging Restrictions	May engage in hedging activities with Sirius holdings after December 31, 2009, as long as the transaction relates to no more than 50% of the common stock owned
Standstill Restrictions	Until the second anniversary of the close of the Phase II investment (03/06/11), neither Liberty or affiliates may acquire beneficial ownership in SIRI that would result in >49.9% ownership without the approval of the SIRI board  From the second to third anniversaries of the close, Liberty may not acquire any beneficial ownership >49.9% unless it is pursuant to an offer for all outstanding shares not owned by Liberty at a premium to yesterday's closing price
Transfer Restrictions	May not transfer any portion of Sirius holdings to any party other than an affiliate until the second anniversary of the close of Phase II of Liberty's investment (03/06/11)

*Source: Company disclosures*

One reason for the structure of the deal, with Liberty acquiring equity via convertible preferred and restrictions on acquiring more than half of the company, is to avoid tripping change in control provisions in tax laws that would restrict Sirius XM's ability to use NOLs to shield profits from taxation.

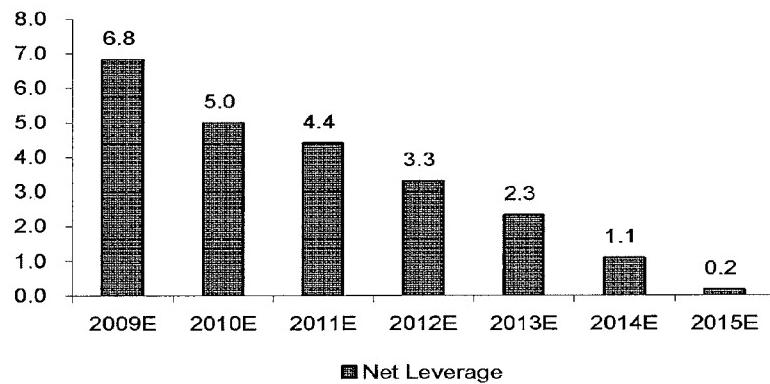
One reason cited by Liberty to help Sirius XM avoid a bankruptcy filing was to protect the valuable NOLs, which could have been lost in a Chapter 11. Sirius has also adopted a poison pill designed to keep any buyer from acquiring more than 4.9% of the company without board approval. This is designed to keep another party from tripping the change in control provision that could reduce the value of the NOLs.

With Sirius XM becoming solidly profitable, we do not expect the company to once again face the need to substantially dilute shareholders to raise capital to repay debts. Instead, we believe that maturities in 2009, 2011 and 2012 can be handled with cash on hand and free cash flow. Sirius XM has no debt maturities in 2010. Some \$1.8 billion of debt comes due in 2013, and will have to be refinanced.


**Exhibit 24. Outlook for Liquidity vs. Debt Maturities**


Source: LCM estimates, company reports

However, by then we believe that growth in adj. EBITDA, and free cash flow will make refinancing easy – certainly much easier than earlier this year.

**Exhibit 25. Net Leverage Outlook**


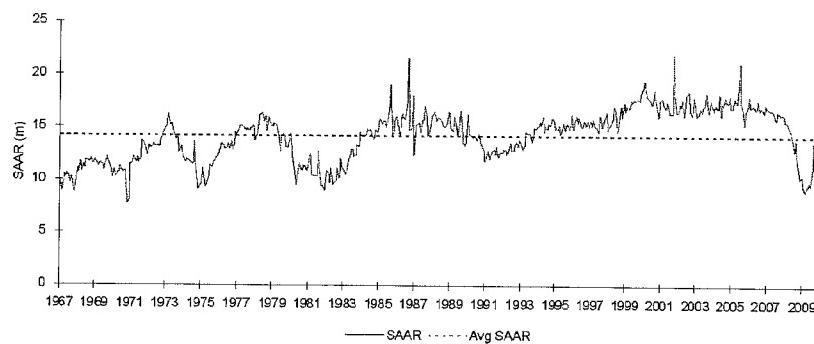
Source: LCM estimates, company reports



### NEW CAR SALES REBOUND IS A POTENTIAL UPSIDE SCENARIO

Our estimates assume only a modest recovery in new car sales, from a trough SAAR of 10.4 million in 2009 to 11.3 million in 2010, 5% per year growth to 2013, and 1% per year growth thereafter. At no point do we assume that new car sales return to the 14.2 million average SAAR since 1967.

**Exhibit 26. Actual Lt. Vehicle SAAR vs. Avg. Since 1967**



Source: LCM Research, Automotive News, BEA

If car sales were to return to the post-1967 average, we estimate that the annual EBITDA lift to Sirius XM would be nearly \$90 million per year, relative to our 2010 SAAR estimate of 11.3 million. This excludes the potential lift from a larger universe of used cars.

**Exhibit 27. Leverage on Return to Normalized SAAR**

Avg SAAR 1967-Current	14.2
- Est. 2010 SAAR	11.3
= Delta	2.9
x self-pay conversion %	40%
= Net new self-pay subs	1.2
x 2010 est Contrib CF/Sub/Yr	\$77
= CF Lift (\$m)	\$89
2010E PF adj. EBITDA	\$571
% lift	16%

Source: LCM Research, company reports, Automotive News

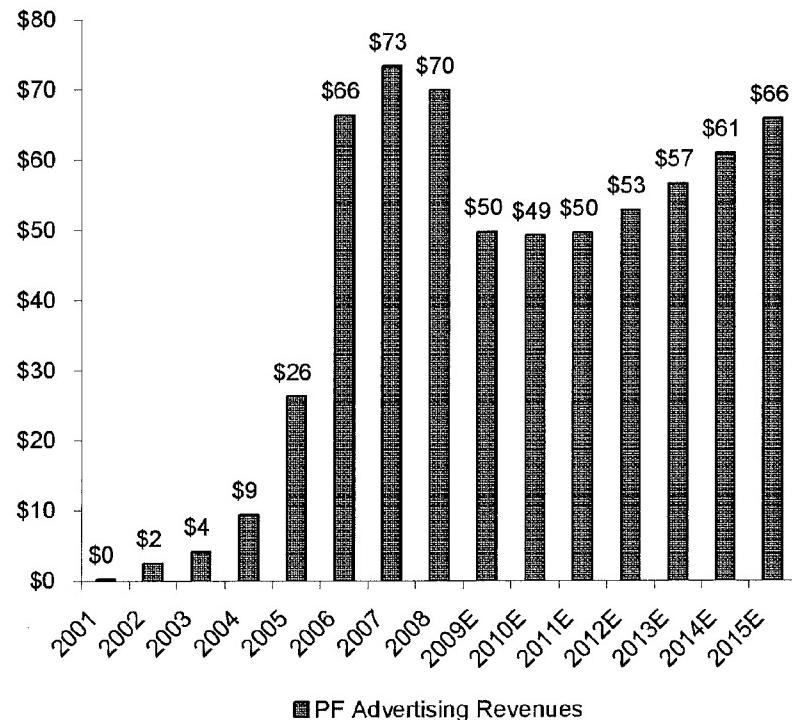
Of course, there is equal leverage to a decline in car sales below our model. However, our assumptions are much lower than the long-term average for car sales, suggesting to us that risks are more to the upside than the downside.



### POTENTIAL UPSIDE FROM ADVERTISING

Another source of potential upside to our Sirius model is advertising. Sirius XM's revenues are subscriber-driven, with advertising less than 2% of the mix. We assume that advertising revenues recover modestly, but never return to the pre-merger peak in 2007. However, if ad markets recover strongly with the economy, Sirius could do better.

**Exhibit 28. Advertising Assumptions Conservative**



Source: LCM estimates, company reports

A more interesting possibility, however, is one that Sirius executives have floated publicly. They have discussed the possibility of layering in a new business model. The fleet of cars on the road with satellite radio factory installed – which totals 27 million now, we estimate, and is projected to increase to over 70 million over the next few years – could be allowed to access a limited, ad-based version of the service with few channels (we'd guess 10 or so.) This could massively expand the audience that could be exposed to ads on satellite radio.

Now, ads run on talk shows such as Howard Stern, sports programming, and a small number of music channels programmed through legacy third-party deals with XM. The maximum potential audience for any of these ads is the 18.5 million subscribers to Sirius and XM, and in reality, much less, as only a portion



of subscribers are listening to satellite radio at any moment and only a fraction of those are tuned into an ad-based channel.

However, if a low-end satellite radio service were offered in all factory-installed cars, the audience potential could balloon. If we assume a scenario in a few years of more than 70 million cars on the road with satellite radio, the potential audience would be more than triple the current 18.5 million subscribers. At a minimum, this suggests an opportunity to triple ad revenues to \$150 million, adding another \$100 million on top of the \$50 million trough figure we estimate in 2009. Media companies typically sell advertising at a 90% contribution margin, and the same could be true at Sirius XM in this scenario.

Moreover, a free, ad-based, limited satellite radio service could help reduce SAC/gross add, by exposing more consumers to the service and providing a marketing channel in the car to push subscriptions. The risk would be that a limited service might cannibalize pay subscriptions. However, the data to date suggest that Sirius XM's subscribers want to pay more for more content. So, a properly configured teaser, we believe, would be more likely to boost subscriber tallies than reduce them.

#### **VALUATION AND PRICE TARGET**

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Our price target of \$1.00 is based on a 13.5x EV multiple vs. 2010E pro forma adj. EBITDA. We believe that this multiple is supportable for a company growing adj. EBITDA more than 30%.

#### **Exhibit 29. Price Target Calculation**

Price	\$1.00
Methodology	FV Multiple
Multiple	13.5x
x 2010E adj. EBITDA	\$571
= firm value	\$7,715
- Debt	(\$2,502)
- Converts	(\$862)
- Preferred	(\$51)
+ Cash	\$380
+ NOL PV	\$1,807
= market cap	\$6,488
	48.0%
/ shares	6,446
= Price	\$1.00
Current Price	\$0.68
% change	47.1%

*Source: LCM estimates, company reports*

The multiple is also supported by our DCF analysis, which assumes in the base case a WACC of 10%, with a terminal year in 2020 and a base terminal year



growth rate of 3.0%, consistent with a terminal year adj. EBITDA multiple of 9.7x. Such a terminal year multiple, we believe, would be consistent with a view of satellite radio as entrenched, mature, and holding its own against potential new competitors.

#### Exhibit 30. Sirius XM DCF Sensitivity Analysis

Average Interim WACC	9.0%	9.0%	9.0%	10.0%	10.0%	10.0%	11.0%	11.0%	11.0%
PV of Interim Cash Flow	\$2,545	\$2,545	\$2,545	\$2,450	\$2,450	\$2,450	\$2,360	\$2,360	\$2,360
Terminal Yr WACC	9.0%	9.0%	9.0%	10.0%	10.0%	10.0%	11.0%	11.0%	11.0%
Term Gr.	2.0%	3.0%	4.0%	2.0%	3.0%	4.0%	2.0%	3.0%	4.0%
Terminal Value, undiscounted Adj. EBITDA, Terminal Year	\$17,203 \$1,791	\$20,266 \$1,791	\$24,556 \$1,791	\$15,052 \$1,791	\$17,371 \$1,791	\$20,463 \$1,791	\$13,380 \$1,791	\$15,200 \$1,791	\$17,540 \$1,791
Terminal Year EBITDA Multiple	9.6	11.3	13.7	8.4	9.7	11.4	7.5	8.5	9.8
PV of TV	6,385	7,523	9,115	5,030	5,805	6,838	4,029	4,577	5,282
% of total FV	71.5%	74.7%	78.2%	67.2%	70.3%	73.6%	63.1%	66.0%	69.1%
Total FV	8,931	10,068	11,660	7,480	8,255	9,289	6,389	6,938	7,642
Adj. EBITDA, 2010E	\$571	\$571	\$571	\$571	\$571	\$571	\$571	\$571	\$571
2010E adj. EBITDA Multiple	15.6	17.6	20.4	13.1	14.4	16.3	11.2	12.1	13.4
Debt	(\$2,502)	(\$2,502)	(\$2,502)	(\$2,502)	(\$2,502)	(\$2,502)	(\$2,502)	(\$2,502)	(\$2,502)
Converts	(862)	(862)	(862)	(862)	(862)	(862)	(862)	(862)	(862)
Other	(51)	(51)	(51)	(51)	(51)	(51)	(51)	(51)	(51)
Cash	380	380	380	380	380	380	380	380	380
NOL, present value	1,807	1,807	1,807	1,807	1,807	1,807	1,807	1,807	1,807
Equity	0	0	0	0	0	0	0	0	0
Adjustments	(1,227)	(1,227)	(1,227)	(1,227)	(1,227)	(1,227)	(1,227)	(1,227)	(1,227)
Market Cap	7,703.2	8,840.5	10,432.7	6,253.0	7,028.0	8,061.3	5,162.1	5,710.3	6,415.0
/Shares	6,445.6	6,445.6	6,445.6	6,445.6	6,445.6	6,445.6	6,445.6	6,445.6	6,445.6
= Per Share	\$1.20	\$1.37	\$1.62	\$0.97	\$1.09	\$1.25	\$0.80	\$0.89	\$1.00
% chg	75.8%	101.7%	138.0%	42.7%	60.3%	83.9%	17.8%	30.3%	46.4%

Sources: Company reports, LCM estimates

The WACC we assume in our DCF is above an 8.5% WACC we would calculate for the enterprise. The additional WACC in our DCF is a measure of caution at a time when interest rates and risk premiums appear to be at unusual levels relative to long-term norms.


**Exhibit 31. Sirius WACC Calculation**

<u>SIRI Equity WACC</u>	
Date	25-Jan-10
Risk Free Rate (10-yr Treasury)	3.6%
Expected market return	10.0%
Market Premium (Expected yield - risk free rate)	6.4%
memo: S&P 500 P/E	15.0
Implied S&P 500 yield	6.7%
Assumed beta (SIRI)	1.1
x market premium = SIRI Premium	7.0%
+ Risk Free Rate = Cost of Equity	10.6%
Equity Value	\$4,383
+ Debt	\$3,364
= Capitalization	\$7,747
Equity % of Capitalization	56.6%
Debt % of Capitalization	43.4%
Cost of equity	10.6%
After-tax cost of debt	5.79%
<u>Weighted Average Cost of Capital</u>	<u>8.5%</u>

Source: LCM estimates, Barra, company reports

Because of its growth, we believe that Sirius XM deserves a premium to other radio peers, as well as to subscriber-driven businesses such as satellite TV and cable TV.

**Exhibit 32. Sirius XM Valuation Peers**

Company	Ticker	Rating	Price Target	Price	Mkt Cap(\$mil)	EV (\$mil)	EV/EBITDA			PE		
							'09E	'10E	'11E	'09E	'10E	'11E
Sirius XM	SIRI	BUY	\$1.00	\$0.68	\$4,401	\$5,630	12.9x	9.7x	9.1x	NM	NM	289.7x
<u>Satellite Television</u>												
DirectTV	DTV	NR	N/A	\$31.09	\$28,976	\$31,906	6.1x	5.1x	4.7x	22.4x	14.0x	11.1x
DISH Network	DISH	NR	N/A	\$19.01	\$6,495	\$12,020	4.8x	4.3x	4.1x	13.9x	10.0x	8.9x
Average							5.4x	4.7x	4.4x	18.2x	12.0x	10.0x
Median							5.4x	4.7x	4.4x	18.2x	12.0x	10.0x
<u>Cable Networks</u>												
Comcast	CMCSA	NR	N/A	\$16.01	\$45,703	\$69,688	5.1x	4.9x	4.8x	13.5x	13.3x	11.8x
Time Warner Cable	TWC	NR	N/A	\$44.74	\$15,768	\$35,690	5.6x	5.4x	5.2x	14.7x	12.4x	10.8x
Cablevision	CVC	NR	N/A	\$26.58	\$6,022	\$15,702	6.2x	6.0x	6.0x	24.8x	16.9x	14.7x
Average							5.6x	5.4x	5.3x	17.7x	14.2x	12.4x
Median							5.6x	5.4x	5.2x	14.7x	13.3x	11.8x
<u>Broadcasters</u>												
CBS	CBS	NR	N/A	\$13.32	\$9,020	\$14,036	7.8x	6.6x	6.2x	25.5x	14.9x	12.1x
Beasley	BBCI	NR	N/A	\$3.32	\$75	\$246	13.0x	10.7x	9.4x	16.6x	13.3x	
Entercom	ETM	NR	N/A	\$8.58	\$319	\$1,149	11.3x	9.8x	9.1x	10.9x	8.4x	5.4x
Average							10.7x	9.1x	8.2x	17.6x	12.2x	8.8x
Median							11.3x	9.8x	9.1x	16.6x	13.3x	8.8x
<u>S&amp;P 500 Index</u>	SPX					\$1,096.78				17.8x	14.1x	12.0x

Source: LCM Research, Factset, company reports

Another argument for satellite radio to trade at a premium to cable and satellite TV is that it faces less competition. Satellite radio is currently the only meaningful subscription audio service in the car, while cable, satellite and telco

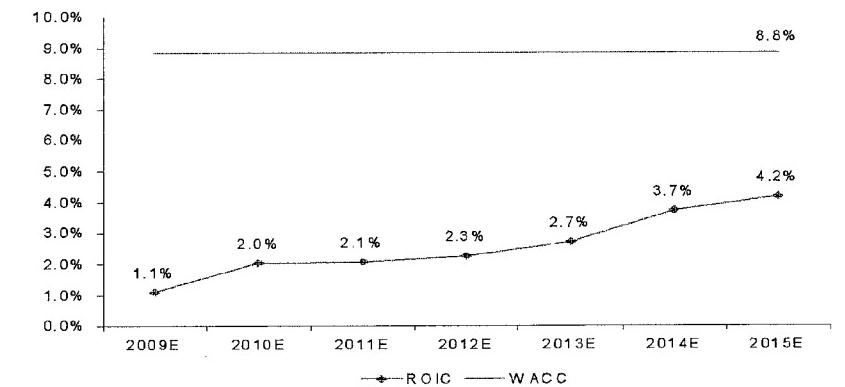


TV compete against each other to provide subscription TV in the home. Cable, satellite TV and telco TV also face greater pressures from programming costs, as popular cable networks and broadcast networks seek higher affiliate fees and use the leverage of yanking popular content. Satellite does not face these pressures and, instead, has declining content costs.

Finally, we believe that Internet video is a bigger threat to subscription TV service providers than online radio is a threat to satellite radio, based on current consumer adoption curves, and the fact that Internet access is most robust in the home, where the TV is, and more limited in the car.

Because of the massive size of its invested capital, we don't expect Sirius XM to generate a return on invested capital above its cost of capital through at least 2015. We understand that this will be seen as negative by some investors. However, in our view, it is more important to deliver an improving ROIC trend, which we clearly see. Also, we do not believe that Sirius XM should be penalized for a capital investment level in that past that won't be repeated in the future, now that its satellite fleet is launched, receiver manufacturing is at scale and the company is turning profitable.

#### **Exhibit 33. ROIC vs. WACC**



Source: LCM Estimates

#### **HOWARD STERN DEAL**

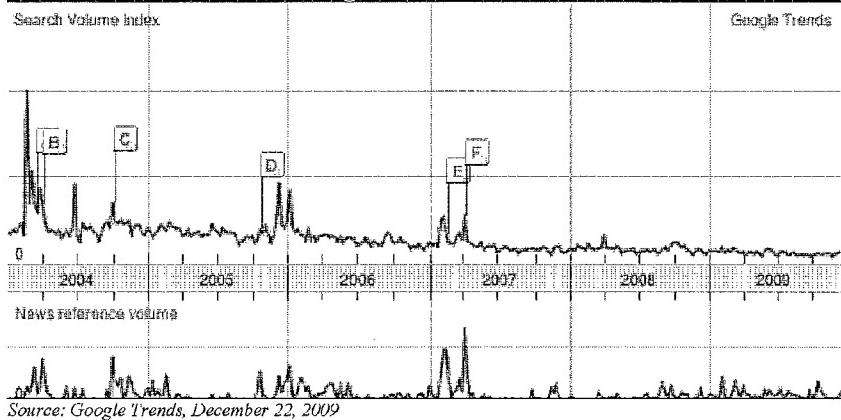
Sirius' five-year, \$500 million deal with Howard Stern was announced October 6, 2004, and commenced on January 1, 2006. It expires December 31, 2010. The contract stipulated \$100 million of compensation per year, of which \$80 million is cash that is expensed in programming costs and \$20 million is stock, the value and P&L impact of which have swung with gyrations of Sirius shares and vesting schedules.



We are assuming that Sirius renews with Howard Stern in 2011 at \$80 million a year in cash, a 20% reduction from the original contract. We believe that represents a fair compromise between the view that Stern is worth less now than he was in 2004, and the fact that he still has a loyal subscriber base that could walk if he doesn't renew, and follow him to a new venue.

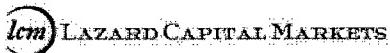
Why do we believe that Howard Stern is worth less? One factor is that he has, in our view, become less influential by serving a more limited audience on satellite radio than he was with a much larger audience on terrestrial radio. One sign of this, to which we point, is the drop in Google searches for Howard Stern since he left terrestrial radio.

**Exhibit 34. Howard Stern Google Searches Are Down**



Another factor making Stern less valuable, in our view, is that there is now only one satellite radio company, not two competing against each other for content deals. That reduces talent's leverage for compensation.

How many subs would Sirius lose if Stern were to leave? It is hard to say, but our guess is perhaps one million. At the time the Stern deal was announced, Sirius trailed XM in retail subscribers by 852,000, with only 535,000 retail subscribers, versus XM's 1.387 million. By the time the Sirius XM merger closed, Sirius' retail subscriber tally had increased to 4.643 million, versus XM's 4.547 million, a 96,000 lead for Sirius. We can assume that total growth in subscribers for the satellite radio industry would have happened without Stern, due to the appeal of the service. However, Sirius' elimination of the market share gap with XM is probably due to Stern. We exclude auto OEM subscribers from this analysis, because that was skewed and driven primarily by automaker deals.


**Exhibit 35. Estimating the Stern Sub Lift**

Announcement Date	Oct. 6, 2004
3Q04 Sirius retail subs	535
3Q04 XM retail subs	<u>1,387</u>
Delta (Sirius vs XM)	(852)

Last report	
1Q08 Sirius retail subs	4,643
<u>1Q08 XM retail subs</u>	<u>4,547</u>
Delta (Sirius vs XM)	96

Delta change = Stern subs (000) 948

Contrib CF/Sub/Yr	\$77
x Stern subs (m)	<u>0.948</u>
= Stern lift/yr (\$m)	\$73

Source: LCM Research, company reports

If Howard Stern contributes about one million subs, that is worth cash flow we would estimate at about \$74 million per year – less than the \$80 million we'd have Sirius pay Stern in a new deal. However, Stern drives ad sales and has promotional power that may not be fully reflected in the per sub cash flow averages we use in this analysis.

Sirius XM's subscriber losses have been steepest in the retail base that Stern built up. So, it appears that many of his fans may have already departed. New OEM-driven growth at this point may have little to do with Stern. So, if he left, it is possible that programming costs could fall and subscriber fallout could be limited.

What does Howard Stern want? It's hard to say. In late 2009, he reportedly said on the air that he might not renew his Sirius contract. Then, he was quoted on Jan. 25, 2010 in *Inside Radio* saying he does not intend to move to terrestrial radio. Clearly, until a contract is signed, we won't take it as the final word.

Stern could retire. In such a scenario, the impact on Sirius would likely be limited, as Stern fans would have nowhere else to find him. We find this highly unlikely.

Alternatively, Stern could leave for another venue, potentially returning to terrestrial radio or moving to a new service, such as an online radio offering.

If Stern returned to terrestrial radio, he would have to live with FCC indecency rules that he professed to hate, although we believe his battles with the FCC created controversy and tension that likely improved the show. Terrestrial radio might be hard pressed to top what Sirius is able to pay Stern at this point, due to falling ad revenues and heavy debt loads. Online radio services would be even harder pressed to match what Sirius can pay in cash, although online radio could offer equity in a new venture. Stern could also create his own new online service.



We anticipate that a combination of hefty pay and, perhaps, reduced work load will win the day and keep Stern on Sirius. If Stern worked less, some of the available time could be filled with repeats and other on-air talent, we believe.

## **COMPETITION**

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When satellite radio launched in 2001 and 2002, the bear story was that it would be overtaken by Apple's revolutionary iPod, which debuted in October 2001. However, in the face of the iPod revolution, satellite radio surged to the current tally of 18.5 million subscribers, with most Americans now aware of the services and satellite radios bundled into most new cars.

The new bear story is that Internet radio will swamp satellite radio, as access moves from in the home to on the go via smart phones such as Apple's iPhone. However, just as satellite radio withstood the iPod and gained ground relative to incumbent in-car options – free terrestrial radio, and CDs and tapes – we believe it can withstand a rising challenge from Internet radio.

The reason satellite radio will likely retain broad appeal to its core niche – men age 35 to 54 with college degrees and above-average income, who are in the market for a new or used car – is that satellite radio has much more resources to invest in popular, exclusive, high-profile original content than online radio. Online radio services, in our opinion, are simply not in a financial position at this point to match the more than \$350 million per year we see Sirius XM spending on programming to obtain such content as Howard Stern, expansive sports coverage, and radio streams of popular cable news channels such as CNBC and CNN. Satellite radio's rich lineup of ad-free music, comedy, and other genre channels is also unique, as terrestrial radio and most online radio services are ad based.

Satellite radio costs on par with a purchase of 1-2 CDs in a month, a sum that we believe its core users see as a bargain for such a rich trove of content. A satellite radio subscription costs very little relative to the tens of thousands of dollars invested in the purchase a new or used car. It offers a cheap way to better enjoy what for most Americans is many hours spent in a car commuting or doing errands every week.

## **DATA POINTS TO LOYAL NICHE FOR SATELLITE RADIO**

Some of the best data on consumer use of audio media in the public domain come from the Video Consumer Mapping Study, the largest-ever observational study of consumer media consumption, designed and executed by Ball State University and Sequent Partners, sponsored by the Council for Research Excellence (CRE), with financial backing from The Nielsen Company.

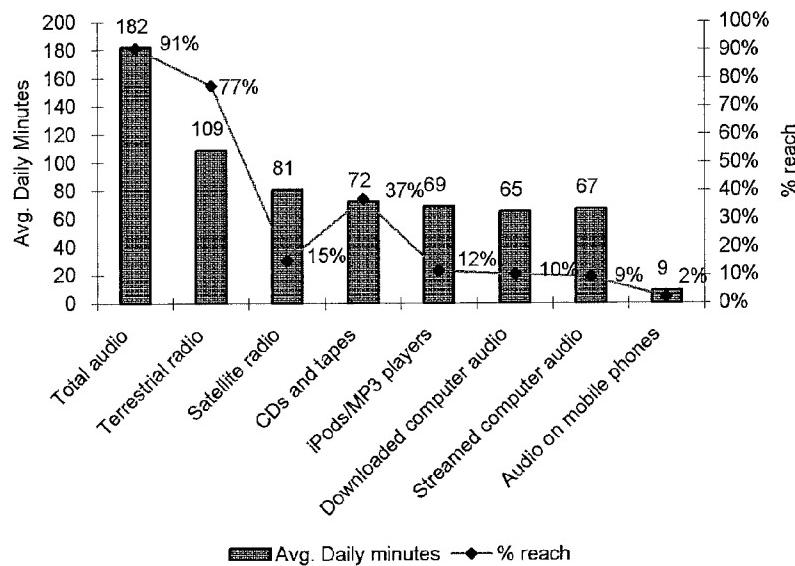
In this study, researchers tracked media consumption by a representative group of people in five large markets – Atlanta, Chicago, Dallas, Philadelphia, and Seattle. Participants were selected from Nielsen's TV People Meter panel and observed in 10-second increments over two days, once in spring 2008, and again in the fall. The sample included 752 days and over 750,000 minutes of observations.



While it was focused on video and TV consumption, data were also gathered on audio and discussed in a report published on October 29, 2009.

According to this study, 90% of adults listen to audio media daily, spending an average of 182 minutes per day. The dominant audio media is terrestrial radio, to which 77% of adults listen an average 109 minutes a day. However, satellite radio is next, in terms of user commitment, with the 15% of adults who listen to it spending an average of 81 minutes per day. This suggests to us a high level of commitment from a niche audience.

**Exhibit 36. Time Spent on Audio Entertainment**



Source: Center for Research Excellence, October 2009

By comparison, CDs and tapes were listened to an average of 72 minutes per day, although by a much broader universe of 37% of adults

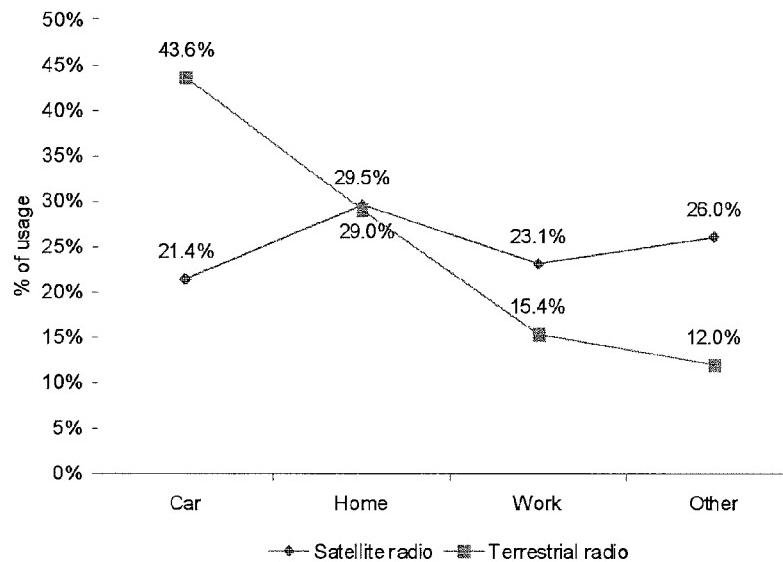
We thought it interesting that satellite radio usage was higher than that for iPods and MP3 players, which were used by only 12% of adults daily, for an average of 69 minutes. This is despite the fact that, according to a January 2009 survey by Arbitron and Edison Research, 42% of Americans over 12 own an iPod or MP3 player. This is consistent with what we've seen – there is a large universe of people who buy iPods and don't use them. By contrast, satellite radio subscribers appear to be quite engaged with the service.

Audio on mobile phones at the time of the survey was not yet a meaningful activity, with only nine minutes of average listening time and daily usage by only 2% adults, despite growing buzz about cell phone access to online music services such as Pandora.



The survey confirmed what advertisers and radio operators already knew – that terrestrial radio is principally an out-of-home medium, with 44% of listening in the car and 29% at work. Even though satellite radio purchases are, we believe, driven by a desire for in-car entertainment – a conclusion supported by the fact that most new subscriptions are coming from satellite radios installed in cars – users are so committed that they listen in a range of venues. According to the CRE survey, 30% of satellite radio listening is in the home, 23% at work, and 21% in the car. By comparison, 55% of iPod/MP3 listening is in the home.

#### **Exhibit 37. Usage by Venue: Satellite vs. Terrestrial Radio**



*Source: Center for Research Excellence, Oct. 2009.*

The CRE survey also suggests clear demographic differentiation among the most committed users of different forms of audio entertainment.

Terrestrial radio's biggest users are those over 55. Satellite radio appeals mainly to men age 35 to 54. Both satellite and terrestrial radio skew to audiences with above-average income and college degrees. CDs and tapes skew towards those 18 to 34 without high school degrees making less than \$30,000 per year. MP3/iPod skews young, male, and college educated.

We read these differences as evidence that each medium can find a distinct audience. An advantage for satellite radio is that it is principally targeted at new car buyers, a group that likely has disposable income, a positive in this economic environment.


**Exhibit 38. Key Demos for Top Users of Audio Entertainment**

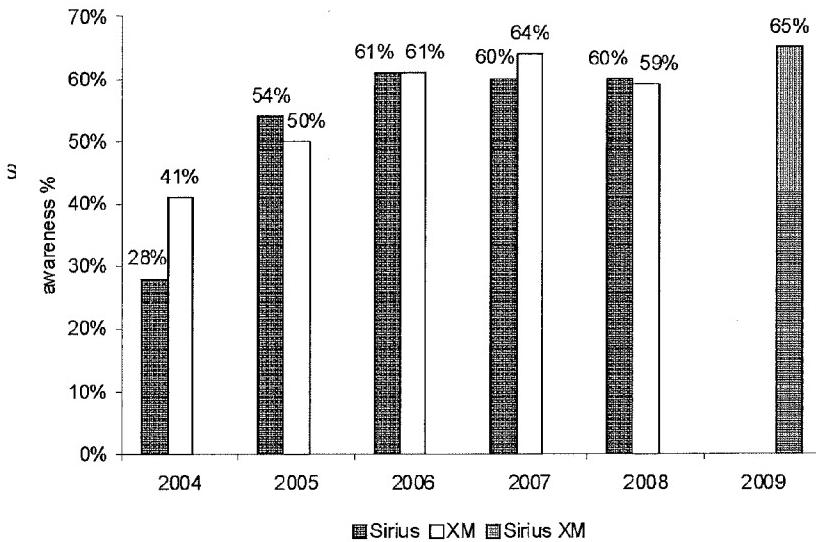
Medium	Terrestrial Radio	Satellite Radio	CDs/Tapes	MP3/iPods
Education	84% reach adv. degrees	21% reach adv. degrees	High school or less avg 82 mins/day	18% reach adv. degrees
HH Income	84% reach HHI + \$100K	22% reach HHI + \$100K	HHI under \$30K avg 99 mins/day	17% reach HHI + \$100K
Age	Age 55+ listen avg 122 mins/day	Age 35 to 54 listen avg. 116 mins/day	46% reach ages 18-34	21% reach ages 18-34
Gender	79% reach men; 75% women	Men listen 115 mins/day; women 54 mins	Women listen 39 mins/day; men 35 mins	16% reach men, 8% women
Race	Blacks listen avg 124 mins/day	Hispanic reach 17%; White 16%	Hispanic reach 44%	White reach 12%; Hispanic 11%

Source: Center for Research Excellence, Oct. 2009.

**AWARENESS RECOVERING POST MERGER, DESPITE RECESSION**

Arbitron/Edison Research conducts an annual survey of nearly 2,000 people over age 12. We find the results encouraging on another front – it suggests that, after a dip during the prolonged merger approval process in 2008, awareness for satellite radio is recovering.

The latest survey was taken in January 2009, when Sirius XM was battling possible bankruptcy and fears about the recession were looming large. Even so, awareness of satellite radio rebounded to 65%, from 60% and 59% for Sirius and XM, respectively, in 2008.

**Exhibit 39. Awareness Rebounding for Satellite Radio**


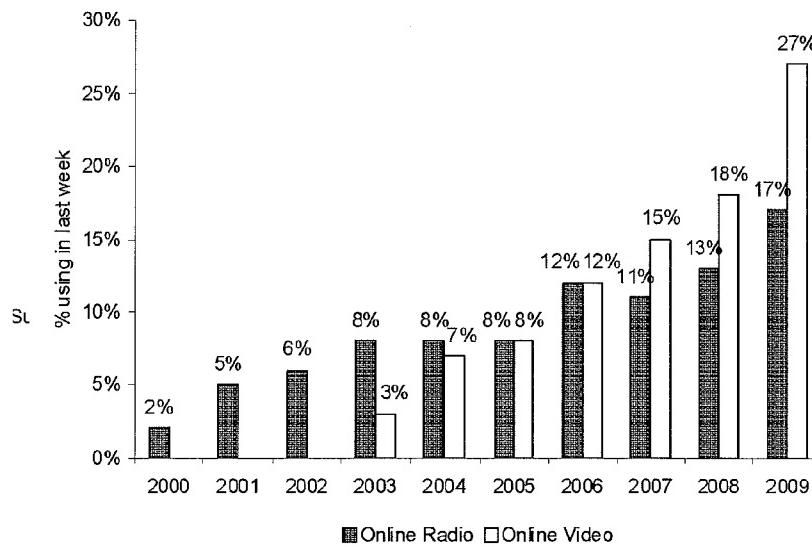
Source: Arbitron/Edison Research survey of 1,858 people 12+. Published April 2009. Surveyed Jan. 2009

A separate, Arbitron survey in Oct. and Nov. of 2009, found that more than 35 million adults tune into satellite radio, or nearly twice the subscriber total. Of these some 32 million listen weekly. On a typical day, Sirius XM listeners spend 2 hours and 45 minutes in their vehicle. While in the car, they spend 71% of their time listening to SIRIUS XM, 17% listening to AM/FM radio, and 5% using mobile devices.



The Jan. 2009 Arbitron/Edison survey also has some interesting points regarding online radio. Usage is growing, with 17% having used it at least once in the last week in the most recent survey, up from 13% in the previous year. However, use of online video is ramping much faster, to 27% in 2009 from 18% in 2008, which supports our view that the Internet is a bigger threat to traditional video distributors than radio operators.

#### Exhibit 40. Online Video Usage Outpacing Online Radio



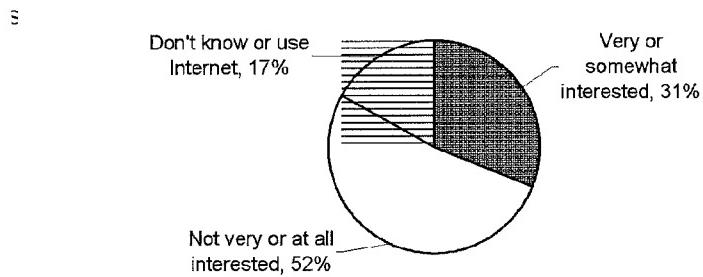
Source: Arbitron/Edison Research survey of 1,858 people 12+. Published April 2009. Surveyed Jan. 2009

We note as well that the Arbitron/Edison survey had an interesting point about consumer desire for Internet radio in the car – while a third are interested, a majority are not.



### Exhibit 41. Most Have Little Desire for Internet Radio in the Car

"How interested would you be in listening to Internet Radio Programming  
in the car?"



*Source: Arbitron/Edison Research survey of 1,858 people 12+ Published April 2009, Surveyed Jan. 2009*

## HD RADIO

Terrestrial radio is responding to new technology threats by pushing digital formatted HD radio, supported by technology from privately held iBiquity. This digital technology improves audio quality by reducing static, allows for sister channels with new content options, has the potential to support subscription services, and can also provide digital displays with song information and allow listeners to "tag" songs for later purchase and download online from a source such as iTunes. According to iBiquity, there are nearly 2,000 radio stations in the U.S. broadcasting in HD, and more than 1,000 HD2 or HD3 channels.

Today, a consumer can buy 34 car models with factory-installed HD Radio technology as a standard feature or option from seven brands: BMW, Hyundai, Jaguar, Mercedes, MINI, Scion and Volvo. In 2010, Volvo plans to become the first car to offer HD as a standard, factory-installed feature across its lineup. Another six brands have committed to support HD: Audi, Ford, Kia, Land Rover, Lincoln and Mercury

However, according to the Arbitron/Edison research, consumer awareness is modest, despite heavy promotion, with only 29% saying they have heard anything recently about this technology. Only 32% are somewhat or very interested in it. We believe that HD radio has less penetration of new car production than satellite radio because of lower SAC subsidies and a more limited range of content. That has held back automaker commitments to include HD radio in their new cars.



Even if HD were to achieve broader use, we would not expect it to change demand for satellite radio or other new forms of audio entertainment, as HD stations would still be very similar to terrestrial radio today – primarily ad-based stations, with few subscription alternatives.

#### **FEW RESOURCES FOR INTERNET RADIO**

Terrestrial radio operators around the world stream their stations online. Additionally, the Internet is spawning new online radio services, such as Pandora, which offers a playlist customized to reflect genre and artist preferences, and for a fee, allows ad and song skipping. Pandora reports 40 million registered users and three million daily users, of which one-third access the service via iPhone. Various reports have cited ambitions from Pandora to be bundled into cars, including talk of a possible link over time with Ford.

The likely audience for the customized music playlist feature that is the core content of Pandora and similar services strikes us as potentially comparable in size to the audience using iPods. So, if satellite radio can survive the iPod, logic suggests it can survive Pandora, which could find a place as an additional music channel in the car, complementing content from satellite radio.

In order to more seriously rival satellite radio, Pandora and other Internet radio services would, we believe, have to invest in original, popular content. However, we doubt that they have the financial resources to do that, with limited revenues, primarily from advertising, and higher music royalty costs as a percentage of revenues than Sirius XM.

**Exhibit 42. Key Internet Radio Competitors**

Internet Radio	PF Revenues	User/Sub. Base	Premium Service Upcharges
Pandora	\$40m in 2009 Profits in 2009 vs \$25m in 2008	+ 40m regist. users 15m visitors/mo. 1/3rd of 3m daily users use mobile phones	Free, ad-based service available for 40 hours, with limited song skips Can pay \$0.99/month for >40 hours with ads and unlimited song skipping. Pandora One: \$36/month for unlimited listening, no ads, no skip limit
LastFM.com	\$100	+ 30m regist. users 13m visitors/mo.	Non US, UK, or Germany users must pay €3/month after a 30 track trial US, UK or Germany users may pay 3 dollars/euros/etc. for ad-free
Slacker	\$100	Undisclosed	\$3.99/month for zero ads, unlimited skips and lyrics
Rhapsody/RadioPass	\$161	780 thousand subs	\$12.99/month for unlimited access to the catalog and radio, incremental \$2 to transfer any music to compatible devices

Source: Sirius XM, company reports, company Websites

#### **DASHBOARD BUNDLING**

Currently, most new cars come equipped with auxiliary jacks that allow users to plug in devices, such as smart phones or MP3 players. However, it can be difficult, and potentially a violation of traffic laws to use such handheld devices while driving.



Ford Motor has attacked attacking this issue with a new Synch in-car computer operating system developed by Microsoft that allows drivers to dock smart phones to auxiliary jacks, and use voice and dashboard controls for basic Web surfing activities.

At the Consumer Electronics Show in Las Vegas in January, Ford demonstrated a next-generation enhancement to the Synch feature that will allow users to dock smart phones, and have the car automatically detect their Pandora settings. Ford also plans in 2010 to support the HD radio song tagging feature in some new vehicles. Ford at this point is far ahead of other automakers, and is providing these features on only a limited range of vehicles.

#### **SIRIUS COULD CO-OPT INTERNET RADIO THREAT**

Should Internet radio ever gain traction as a meaningful substitute for a satellite radio subscription, Sirius XM has an opportunity to co-opt the competition with its own Internet streams. Versions of Sirius and XM, excluding some content such as Howard Stern and the NFL, are available online. There is an iPhone application available for satellite radio streaming. XM also sells a SkyDock that allows an iPhone in the car to receive the satellite signal.

Sirius and XM could leverage their installed bases of car-based subscriptions to invest in better online content than any other streaming service. It is also possible that Sirius XM could buy a promising Internet streaming start-up. Sirius XM, ultimately, could have its own Pandora-like streaming feature.

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#### **CAPITAL STRUCTURE**

Sirius XM's capital structure is awkward.


**Exhibit 43. Sirius XM Capital Structure**

Date	25-Jan-10
Price (\$)	\$0.68
Basic Shares (mm)	3,859
Additional shares from in-the-money convertible debt	0
Additional shares from options (Treasury method)	0
Additional shares, warrants	0
Additional shares, Series A Preferred	0
Additional shares, Series B Preferred (Liberty Shares)	2,587
<u>Fully diluted shares</u>	<u>6,446</u>
Market capitalization (\$mn)	\$4,383
Plus debt, ex converts (\$mn)	\$2,502
Plus out-of-the-money cconvertible debt (\$mn)	\$862
Plus, Series A Preferred (\$mn)	\$51
Less, cash & equivalents (\$mn)	(\$380)
<u>Less equity, net (\$mn)</u>	<u>\$0</u>
Total Adjustments (\$mn)	\$3,035
Firm Value	\$7,418
FV/Share (\$)	\$1.15
Less, NOL, present value	(\$1,807)
Firm value, adjusted for NOL (\$mn)	\$5,610
Adj. FV/Share (\$)	\$0.87

Source: LCM Research

The shares trade at around \$0.68. However, Sirius XM has nearly 6.5 billion fully diluted shares outstanding – 3.9 billion basic shares and 2.6 billion shares imputed from Liberty’s Series B Preferred, which is treated as common in a fully diluted share count calculation, resulting in a market cap of nearly \$3.9 billion.

The shares are listed on NASDAQ, and the exchange has warned Sirius XM that it is not compliant with rules requiring listed shares to trade above \$1. Sirius has been notified that, unless it complies with the requirement by having shares that trade above \$1 for at least 10 consecutive trading days ending March 15, 2010, its shares could be de-listed.

Sirius XM has lobbied for an exemption from the rule. However, shareholders have also given the company the authority for a 10-1 to 50-1 reverse stock split.

Why has Sirius not already executed a reverse split? We aren’t sure, although we suspect the reasons include having bigger fish to fry and fear that a reverse split could pressure the shares. So, the company may be trying to stall long enough to show robust earnings growth, in order to persuade investors that a reverse split is not a sign of weakness.

We understand that it can be more difficult to short penny stocks, as transaction costs relative to share price can be high, making hurdle rates hard to cover. This suggests that a reverse split could make it easier to short the stock. However,



many institutional funds are prohibited from buying penny stocks. Thus, a reverse split could open up a new universe of buyers. Because its cash flow is rebounding, Sirius can, we believe, buck the standard concern that a reverse split is a bad omen for share prices.

Sirius XM has \$2.5 billion of straight debt and another \$862 million of debt from out-of-the-money converts. We attribute a \$51 million liability for Series A Preferred, and the company exited 3Q09 with \$380 million of cash. That sums to an enterprise value of just over \$6.9 billion, from which we subtract a \$1.7 billion present value of the NOLs to arrive at an adjusted enterprise value of \$5.2 billion.

#### **Exhibit 44. Sirius XM Debt Detail, as of 3Q09**

<b>Instrument</b>	<b>Principal</b>	<b>Book Value</b>
Sirius 8 3/4% Convertible Subordinated Notes due 2009 (Conv price \$28.)	\$0	\$0
Sirius 3 1/4% Convertible Notes due 2011 (Conv price \$5.30) (Oct. 2011)	\$230	\$230
Sirius \$250m Sr. Sec. Term Loan (Morgan Stanley) due 2012	\$245	\$245
Liberty MediaTerm Loan (due 2012)	\$0	\$0
Liberty Media Purchase Money Loan (due 2012)	\$0	\$0
Sirius 9 5/8% Sr. Unsecured Notes due 2013 (Aug. 2013)	\$500	\$500
Space Systems/Ioral Credit Agreement	\$0	\$0
<u>Sirius 9.75% Sr. Sr. Sec Notes due 2015 (Sept. 1, 2015)</u>	\$257	\$245
sub-total Sirius debt	\$1,232	\$1,220
XM \$250m Senior Secured Revolving Credit Agreement May 5 2009 due	\$0	\$0
XM 10% Convertible Sr. Notes due 2009 (conv price \$10.87) (Dec. 2009)	\$48	\$48
XM 10% Sr. Sec. Discount Conv. Notes due 2009 (conv price \$0.69) Dec	\$33	\$40
XM 10% Sr. P1K Secured Notes due 2011	\$172	\$160
XM 11.25% Sr. Sec. Notes due 2013	\$526	\$491
XM 13% Sr. Notes due 2013	\$779	\$712
XM 9.75% Sr Notes due 2014	\$5	\$5
XM 7% Exchg. Sr. Sub. Notes Due 2014 (conv price \$1.875)	\$550	\$550
<u>Second-Lien Credit Agreement</u>	\$0	\$0
sub-total XM debt	\$2,114	\$2,006
Capital Leases (from XM)	\$18	\$18
<b>Total</b>	<b>\$3,364</b>	<b>\$3,244</b>
<b>Sirius XM Debt Breakdown</b>		
Convertible	\$862	\$868
Non-Convertible	\$2,502	\$2,376
Due 2009	\$82	\$88
Due 2010	\$0	\$0
Due 2011	\$402	\$390
Due 2012	\$245	\$245
Due 2013	\$1,804	\$1,703
Due 2014	\$555	\$555
Due 2015	\$257	\$245
<u>Other</u>	<u>\$18</u>	<u>\$18</u>
<b>Total</b>	<b>\$3,364</b>	<b>\$3,244</b>

Source: LCM Research



## **MODELING POINTS**

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There are several peculiarities to the Sirius XM model that warrant discussion.

### **GAAP VS. PRO FORMA**

Sirius XM has embraced a pro forma income statement as the key way to evaluate the company. Sirius XM's pro forma statement not only presents financials as if both companies had been combined, but also normalizes for merger-driven accounting changes.

The principal accounting difference is that the GAAP income statement excludes revenues and expenses tied to certain long-term contracts, such as the GM deal, that were written down at the time of the merger. These write-downs were included in a \$4.8 billion merger-related goodwill impairment charge in 3Q08. However, even though contracts were written down, cash expenses are still being incurred.

In 2009, GAAP subscription revenues were pacing more than \$51 million below the pro forma figure. However, because of expense exclusions, adj. EBITDA calculated using GAAP expense lines was pacing \$173 million above pro forma adj. EBITDA. GAAP D&A expenses were pacing \$110 million higher than pro forma D&A. However, GAAP net income to common shareholder was pacing \$110 million better than pro forma net income.

We believe that the pro forma figures are a better measure of underlying cash flows. The higher GAAP earnings are offset by a purchase-price accounting adjustment in the statement of cash flows. Over time, the differences between GAAP and pro forma earnings should narrow, as contracts that were written down expire or are renewed.

### **WHAT'S A SUBSCRIBER?**

A radio is counted as a subscription when it is sold, and collection of subscription revenues is reasonably assured. When a radio is sold at retail to a consumer, it becomes a subscription when the consumer calls up Sirius XM and activates a subscription, typically paying with a credit card. Used car additions are similarly simple. Radios installed in used cars become active subscriptions when a consumer calls up to start a subscription.

### **NEW CAR SUBSCRIBER TALLIES**

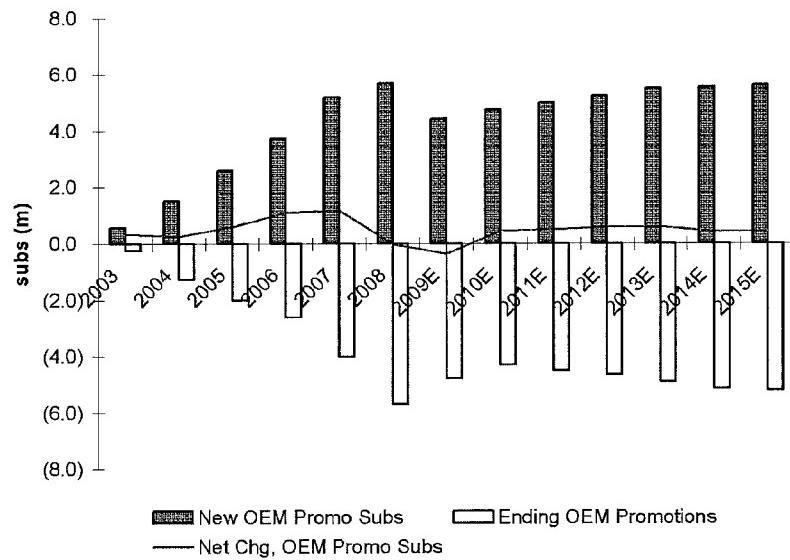
Subscriber accounting is trickier with new car sales. Here, Sirius XM is counting two types of subscribers: "promotional subscribers," who use radios in promotional periods paid for by automakers; and "self-paying subscribers," who sign up for a regular subscription.

Net change in promotional subscribers represents the additional new car radios in promotional periods, less promotional periods that have ended, after which a user either becomes a self-paying subscriber or churns off from the service.



We expect modest growth in new car sales and penetration to result in modest growth in promotional subscribers.

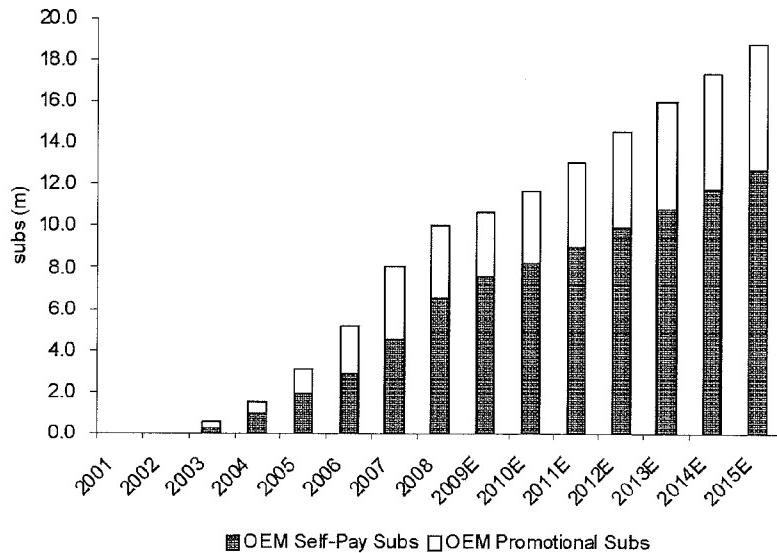
**Exhibit 45. OEM Promotional Subscriber Outlook**



Source: Company reports, LCM estimates

Conversion rate is the percentage of promotional users who convert to a paying subscriber after the promotional period ends. The promotional period is the time of a free trial, plus an additional 30 days for credit card processing. The conversion rate is measured 90 days after the free trial ends.

We see growth in self-pay as the key driver of overall OEM subscriber growth.

**Exhibit 46. OEM Self-Pay vs. Promotional Subscriber Outlook**

Source: LCM Research

### GM and Honda

GM and Honda work exclusively with the XM service for factory installations. As part of the deals between GM and Honda and XM, when a consumer buys a car with satellite radio pre-installed, a three-month free trial period kicks in. During this time, the consumer has access to satellite radio, at no additional cost, beyond the expense of the satellite radio feature bundled into the sticker price. The automaker is contractually obligated to pay XM for two months of the three-month free trial. When the car is sold, the unit drives revenues that are reasonably assured, so XM treats it as a promotional subscriber. The cost to XM of subsidizing the OEM installation is in SAC, and the automaker revenue contribution is amortized into subscription revenues and ARPU.

### Chrysler and Ford

There is a slightly different twist in Sirius' deals with Chrysler and Ford. Here, consumers are offered free trials that last one year with Chrysler and six months with Ford. Chrysler remits to Sirius fees that cover 11 months of the 12-month free trial. The money is paid when a car rolls off the assembly line. Ford remits five months at the same time. Because the automakers pay Sirius when the car is made, as opposed to when it is sold, cars are counted as subscribers when they are assembled.

This has created so-called "parking lot" subs – cars counted as subscribers, but not yet sold and sitting on dealer lots. Sirius' parking lot sub totals have not been



disclosed for more than a year. At last report, they were just over 2% of the combined XM-Sirius pro forma sub count, and we believe they are still in that range.

Revenues from parking lot subs are not accrued until a car is sold, when Sirius can be reasonably assured of retaining the money remitted by the automaker. Until recognized as revenue, cash remitted by an automaker sits on the balance sheet as deferred revenue.

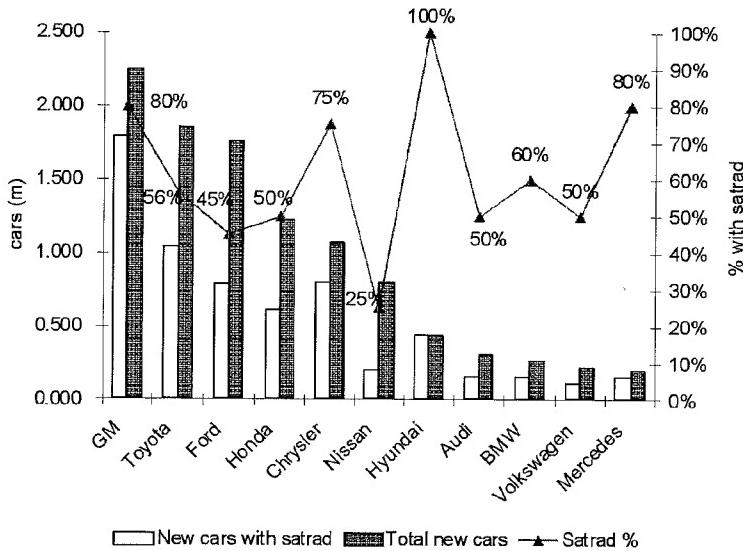
Parking lot subs are included in sub tallies that average down SAC/gross additions. However, exclusion of revenues from parking lot subs depresses ARPU. Since the merger, these calculations have become less meaningful, since they do not affect the XM subscriber base.

#### **Toyota, Hyundai, Nissan, Audi, Kia**

Purchasers of Toyota, Hyundai, Nissan, Audi and Kia cars with factory-installed satellite radio also receive a three-month free trial. However, these automakers do not cover any of the cost of the free trial. So, these cars are not counted as subscribers until the owner activates a self-paying subscription. Conversion rates for these free trials are not reported, but we believe they are lower than the reported conversion rates for promotional subscribers. The delta is not disclosed, but we estimate that roughly 35% of the buyers of these cars become paying subscribers, versus a roughly 45% conversion rate for promotional subscribers. One reason that the self-pay uptake rate is lower is than promotional subscriber conversion rates is that these vehicles are more highly penetrated – XM is basically in all of Hyundai's production, for instance.



Exhibit 47. New Car Production Outlook by Automaker: 2010E



Source: LCM estimates, company reports, Automotive News

These deals increase SAC/gross add – costs to subsidize the radio installation are included in SAC, but only subs who become self paying are included in the tally. These deals have a slower impact on subscriber growth. Toyota, for instance, is only now ramping up a substantial push to pre-install satellite radio (we estimate in over half of its production). This push will only begin to lift subscriber tallies next year as car buyers convert from free trials to paying subscribers.

#### REVENUE SHARE AND ROYALTY COSTS

Revenue share and royalty costs include music rights fees, hefty revenue share payments due GM, and smaller revenue shares with other automakers.

Music rights fees consist of fees for music performances, governed by agreements between Sirius XM and the Copyright Royalty Board, and separate publishing fees covered by deals between Sirius XM and music publishers' trade groups, such as ASCAP, BMI and SESAC. The performance fee was set in a five-year deal (2007-2012) with the Copyright Royalty Board at 6% of gross revenues, rising to 8% of gross revenues, excluding some lines such as sales of equipment. This was a step up from fees that were fixed, but netted out close to 3% of sales through 2006. Publication rights fees have been less variable. Sirius XM indicates that investors should assume that music rights fees, in aggregate, net out near 9% of revenues in 2009, with the percentage moving up through 2012 – we assume a half percent per year.



Interestingly, the total cost per average subscriber per month for music rights fees was, we estimate, \$1.02 in 2009, rising to \$1.20 in 2010. This is below the \$1.98 per month fee being passed on to standard subscribers. Thus, Sirius XM is not only covering its cost, it appears to be garnering a hefty markup. Sirius XM says that the fee pass-through covers not only current costs, but costs already incurred since March 2007 under the new rate regime. Will Sirius drop the fee at some point? We doubt it. Instead, after the price hike moratorium passes in 2011, we expect the music rights fee to remain an entrenched charge for the service.

The terms of the General Motors deal were originally widely panned as less than great for XM. This is perhaps a debatable point, since the GM deal – a 12-year agreement struck in 2001 and revised with an XM recapitalization in 2003 – allowed XM to kick-start its service, avoid bankruptcy and launch an IPO. One of the costliest parts of the deal is that XM was required to remit to GM a healthy portion of revenues for subscriptions from GM cars, for the life of the car. Terms were never fully, publicly aired, but it was said that GM was originally receiving a fee greater than 50% of what was originally a monthly subscription charge of \$9.99. That was later reduced somewhat. We believe that early this year, when Sirius XM approached GM about extending the deal, it may have won an additional reduction in the revenue share payment until 2013, when there may be another step down, through the end of the deal in 2020.

Given that Sirius XM pays meaningful revenue share to automakers, but not to retailers, mix-shift to OEM is a headwind in this line.

Revenue share and royalty costs for the pro forma company totaled 19.6% of revenues in 2007 and 2008, and we see them at 19.5% in 2009. We expect the percentage to rise to 20.3% in 2011 and 21.2% in 2012, peaking at 22.0% in 2013 before easing again to 21% with the lower cost of the revised GM deal.

#### SAC, CHURN, ARPU CALCULATIONS

Sirius XM calculates SAC per gross addition as the sum of subscriber acquisition costs as reported on the income statement, plus the net cost of satellite radio equipment (equipment revenues less equipment cost), divided by gross additions of subscribers. SAC is higher for OEM deals and lower for retail, partly because OEM installations are slower to utilize newer, cheaper chipset technologies than retail, because of longer lead times to put new technologies into car assembly operations. However, Sirius XM's sub growth is skewed so much to OEM that OEM drives the SAC calculation.

Churn per month is calculated as cancellations of self-paying subscribers in a quarter, as a percentage of weighted average subscribers, divided by three. This figure excludes subscribers lost as promotional periods end, which instead is captured in the conversion figure.

ARPU as reported by Sirius XM is calculated as subscription revenues plus advertising, divided by weighted average subscribers in a quarter, divided by three. We also calculate an ARPU for subscription revenues alone, excluding advertising, and a total ARPU that also includes music rights fees.



## **INTERNATIONAL**

Sirius XM has no meaningful international operations. However, the company owns 23% of XM Canada and 20% of Sirius Canada, and those companies offer the respective services in Canada, basically using the same satellite fleet, technology and automaker relationships that Sirius XM has in the U.S.

XM Canada is publicly traded on the Toronto Exchange, with Sirius XM's stake valued at close to \$30 million. It reported 516,000 total subscribers and 381,000 self-paying subs, as of the end of August. Sirius Canada is privately held; press reports have placed its subscriber total near 800,000. XM Canada has agreed to fund some \$69 million of XM's \$100 million 10-year content deal with the National Hockey League.

XM Canada and Sirius Canada have maintained separate operations, despite the Sirius-XM merger in the U.S. We do not include the value of XM Canada and Sirius Canada in enterprise value, mainly to reflect our uncertainty about the prospects for these companies. The exclusion does not meaningfully affect our enterprise value calculation.

Worldspace is a Maryland-based company that provided satellite radio service to some 170,000 subscribers, primarily in India, using technology based on the XM system in the U.S. In 2008, the company filed for Chapter 11 bankruptcy and announced plans to halt its service on December 31, 2009. XM formerly owned an equity stake; Sirius did not.

During the Chapter 11 process, Liberty Media has acquired Worldspace debt, sparking speculation that Liberty could spearhead a possible global satellite radio initiative. However, Sirius executives have avoided committing capital to Worldspace, and we think they will continue to avoid that. We also doubt that Liberty can cobble together anything meaningful from the Worldspace holdings.

## **DIRECTV AND DISH MUSIC CHANNELS**

XM has a legacy deal to provide program music channels on the DirecTV satellite TV service. Sirius has a similar deal with DISH Network. DirecTV recently announced plans to switch from XM to another music service on February 9. We understand that revenues from these relationships are immaterial, and that the satellite radio companies viewed them mainly as promotional opportunities.

## **SATELLITE TECHNOLOGY**

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The FCC has allocated two S-band licenses for satellite radio; XM has one and Sirius has the other. The licenses allocated to each of the services 12.5 MHz for broadcast within the 2320-2345 MHz range. Each service also has 12.5 MHz of bandwidth for satellite uplink within the 7060-7072.5 MHz band.

Both XM and Sirius now operate networks of four satellites. XM's satellites are all in a geosynchronous orbit over the equator. Three of Sirius' satellites operate



in an unusual figure-eight orbit from Canada to South America. The fourth satellite, launched June 30 and deployed September 9, is the first for the service in a geosynchronous orbit.

XM's service was designed to provide full coverage of the U.S. and Canada with one satellite. A second satellite would serve as a backup. However, XM's first two satellites, XM-1 and XM-2, suffered from accelerated power degradation problems common to the industry, and were replaced by a pair of satellites launched in 2005 and 2006. XM-1 and XM-2 now serve as in-orbit backups.

While XM's architecture has the advantage of covering the U.S. and Canada with a single satellite, it has the disadvantage of presenting at a steeper angle between the satellite and receiver, because of curvature of the earth. This makes the service more susceptible to interference from ground obstacles, such as buildings and trees. XM overcomes this with a ground-based network of 650 terrestrial repeaters.

The Sirius service maximizes the broadcast angle with its figure-eight orbit, allowing it to operate with fewer (only 125) terrestrial repeaters, although it needs three satellites to maintain a continuous broadcast.

One of the merger synergies is that Sirius can migrate to using XM's terrestrial repeater network. This will expand ground coverage and allow Sirius to consolidate into a geosynchronous satellite network like XM's, allowing it to operate with only two satellites, like XM, saving satellite costs.

Another satellite, XM-5, is planned for summer 2010; it will serve as an in-orbit backup for both services. One more Sirius satellite is planned for late 2011. After that, no satellite launches are expected for 4-5 years. We estimate that satellite launches cost about \$250 million each, and that the useful life of a satellite is about 10 years. Sirius XM has guided for satellite capex of \$170 million in 2009, \$220 million in 2010, and \$125 million in 2011. We see maintenance capex in the \$50-\$60 million range.

For now, we assume that the Sirius and XM services continue to be broadcast from separate satellites, on separate frequencies. Receivers for the services use different chip sets, tuned to different frequencies, although both chipsets are made by ST Microelectronics. To consolidate broadcasts and satellites, Sirius XM would have to subsidize replacement of radios already pre-installed in cars, which we don't believe is practical.

#### **RECEIVER TECHNOLOGY**

With the decline in retail sales, investors' focus on portable, MP3-compatible satellite radios has waned.

Still, since the merger, Sirius XM has fulfilled a promise to the FCC to sell a radio that supports both services – the so-called MiRGE radio, although it sells for nearly \$250, while other receivers commonly cost under \$100. Sirius has touted new backset video options as a complement to satellite radio, with limited



uptake, we believe. We are not sure that family-friendly kids video is the best use of scarce satellite radio spectrum. However, a new XM SkyDock that turns an iPhone into a satellite radio receiver could be promising. There is also an iPhone application that allows users to access satellite radio's online streams.

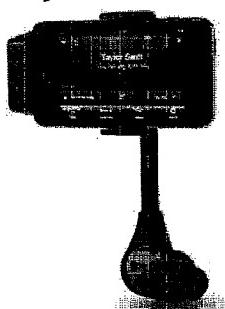
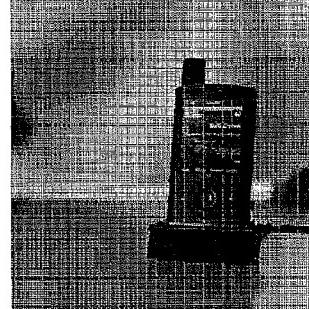
**Exhibit 48. Sampling of Satellite Radios Sold at Retail**

Model	Service	List Price	Key Features
<b>Dock &amp; Play</b>			
MIRGE Interoperable Satellite Radio	Sirius, XM	\$249.99	Only combination chipset radio that plays full services from both XM and Sirius
Stratus 6 with Vehicle Kit	Sirius	\$69.99	Stores 10 preset channels; one touch local traffic
Starmate 5 with Vehicle Kit	Sirius	\$129.99	Pause, rewind and replay up to 44 minutes of live radio. A la carte capable
Sportster 5 with Vehicle Kit	Sirius	\$169.99	Personalized sports ticker
Xpress with Vehicle Kit	XM	\$89.99	Smallest XM radio with a five line display
XpressR with Vehicle Kit	XM	\$129.99	30-minute pause, rewind & replay
onyX In-Vehicle Radio	XM	\$79.99	Six line display, split screen Personalizable display screen to match vehicle's dashboard
<b>In Vehicle</b>			
InV 2 In-Vehicle Radio	Sirius	\$39.99	Affordable Sirius radio
<b>Portable radios</b>			
XMp3 Portable Radio with Home Kit	Sirius	\$229.99	Record up to 100 hours of programming
XMp3 Portable Radio with Vehicle Kit	Sirius	\$299.98	Combines Sirius radio with your personal MP3 library
Stiletto 2	Sirius	\$169.99	MicroSD memory card support
<b>Dedicated Home Radios</b>			
XM Mini-tuner with Home Dock	XM	\$64.98	Works with home audio systems Works with other XM radio systems
<b>Other</b>			
XM SkyDock	XM	\$119.99	Compatible with iPhone, iPod Touch; works with iTunes for purchasing and downloading content
SIRIUSConnect Audio/Video Tuner	Sirius	\$299.99	First tuner for both satellite radio, and family-friendly SIRIUS Backseat TV
SiriusConnect Alpine Satellite Radio Plus Traffic Tuner	Sirius	\$299.99	First tuner for both satellite radio and traffic data services

Source: Company Websites


**Exhibit 49. Selected Retail Radio Product Images**
**Sirius "Stratus 6" Dock & Play Radio**

**XM "onyX" In-Vehicle Radio**

**XM SkyDock iPhone Adapter**

**XMP3 Portable Radio**

**Sirius Stiletto Portable Radio**

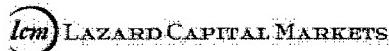
**MiRGE Dock and Play Radio**


*Source: Company product images*

## FINANCIAL FORECAST

One upshot of the plunge in Sirius shares to penny stock level is that sell-side interest we believe has waned, in terms of both the number of analysts covering the stock and attention paid to the story. This, we believe, has made consensus estimates noisy, and a less reliable indicator of market expectations than is typically the case for a company with Sirius XM's market cap and liquidity. Still, to the extent it matters, our estimates appear to be above consensus.

Sirius on Jan. 19 preannounced some key 4Q09 results, including net sub growth (+257,028), self-pay churn (1.97%), OEM conversion rate (46.4%). It reiterated



that it "met" guidance to exceed \$400 million of adj. EBITDA in 2009, and said free cash flow topped \$100 million.

We estimate 4Q09 adj. EBITDA of \$77.8m, for a full year total of \$425 million, and EPS on a GAAP basis of (\$0.01). The consensus is for adj. EBITDA of \$57 million and EPS of \$(0.02), which we assume is on a GAAP basis.

#### **Exhibit 50. LCM Estimates vs. Consensus**

Item	LCM Estimate	Consensus	Variance	Comments
<b>4Q09E</b>				
Revenues (\$m)	\$687.3	\$655.9	\$31.4	PF
Adj. EBITDA (\$m)	\$77.8	\$57.0	\$20.8	PF
EPS	(\$0.01)	(\$0.02)	\$0.01	GAAP
Net Sub Adds (000)	257 K	N/A	N/A	
Self-pay churn	1.97%	N/A	N/A	
Conversion %	46.4%	N/A	N/A	
SAC/gross add	\$75	N/A	N/A	
Reported ARPU (subs & adv)	\$11.05	N/A	N/A	
<b>2009E</b>				
Revenues (\$m)	\$2,530.3	\$2,497.6	\$32.6	PF
Adj. EBITDA (\$m)	\$425.0	\$416.0	\$9.0	PF
EPS	(\$0.16)	(\$0.10)	(\$0.06)	GAAP
Net Sub Adds (000)	-231 K	N/A	N/A	
Self-pay churn	2.10%	N/A	N/A	
Conversion %	45.6%	N/A	N/A	
SAC/gross add	\$66	N/A	N/A	
Reported ARPU (subs & adv)	\$11.05	N/A	N/A	
<b>2010E</b>				
Revenues (\$m)	\$2,826.8	\$2,774.2	\$52.6	PF
EBITDA (\$m)	\$571.5	\$512.5	\$59.0	PF
EPS	\$0.03	(\$0.01)	\$0.04	GAAP
Net Sub Adds (000)	003 K	N/A	N/A	
Self-pay churn	2.20%	N/A	N/A	
Conversion %	44.4%	N/A	N/A	
SAC/gross add	\$67	N/A	N/A	
Reported ARPU (subs & adv)	\$11.05	N/A	N/A	
<b>2011E</b>				
Revenues (\$m)	\$2,952.9	\$2,774.2	\$178.6	PF
EBITDA (\$m)	\$621.6	\$512.5	\$109.1	PF
EPS	\$0.04	\$0.00	\$0.04	GAAP
Net Sub Adds (000)	267 K	N/A	N/A	
Self-pay churn	2.28%	N/A	N/A	
Conversion %	44.4%	N/A	N/A	
SAC/gross add	\$67	N/A	N/A	
Reported ARPU (subs & adv)	\$11.05	N/A	N/A	

Source: LCM Research, company reports, Factset

In 2010, we assume pro forma adj. EBITDA of \$571 million, up 34%, versus guidance for a greater than 20% increase and a consensus estimate for \$559 million. We are assuming a net 3,000 growth in subscribers, consistent with guidance for positive full-year subscriber growth. Sirius assumes in its guidance an SAAR of 11.3 million, which we also see.


**Exhibit 51. LCM Estimates vs. Company Guidance**

Item	Guidance	LCM Estimate	Comments
4Q09 adj. EBITDA	lower than \$106m in 3Q09	\$78	higher mktg spend, more OEM
CY09 adj. EBITDA	>\$400 million	\$425	
CY10 adj. EBITDA	up appx. 20%	34%	\$571
2010 Car sales	11.3m	11.3	
2010 Subscriber growth	positive full year sub growth	3	Siri assumed 11.3m car sales
2010 revenue growth	up mid to high single digits	12%	
2010 free cash flow	improve over 2009	\$112	vs \$42m est in 2009
Satellite capex	\$170m in 2009 \$220m in 2010 \$125m in 2011	(\$172) (\$220) (\$125)	

Source: LCM Research, company reports

**MANAGEMENT**

CEO Mel Karmazin is Sirius' key executive. He is 65, but in July extended his employment contract to 2012.

**Exhibit 52. Sirius XM Key Executives**

Name	Position	Prior Experience	Age
Mel Karmazin	CEO	CEO, 519 LLC, a private investment firm President & COO, Viacom (May 00 - Jun 04) President & CEO, CBS Corp. (Jan 99 - May 00) President & COO, CBS Corp. (Apr 98 - Jan 99) Joined CBS in Jan 97 as Chairman & CEO of CBS Radio Named Chmn & CEO of CBS Stn Grp (Radio & TV) in May 97 President & CEO, Infinity Broadcasting (1981 - Feb 01) Prior to Infinity, spent 10 yrs with Metromedia Served on boards of directors of Westwood One, Blockbuster, NYSE VC, Board of Trustees, The Museum of Television & Radio Inducted into Broadcasting Hall of Fame Received NAB National Radio Award & IRTS Gold Medal Award	65
Scott A. Greenstein	President, Chief Content Officer	CEO, The Greenstein Group, a media and entertainment consulting firm. Chairman of USA Films (1999-2002) Co-President of October Films (1997-1999)	49
James E. Meyer	President, Sales and Operations	SVP Motion Pictures, Music, New Media and Publishing, Miramax Films President of Aegis Ventures Inc, a general mgmt consulting firm Special advisor to the Chairman of Thomson S.A. (Dec 2001-2002) Sr EVP & COO, Thomson Consumer Electronics (Jan 97 - Dec 01) SVP Product Management, Thomson (1992-1996) Director, Gemstar-TV Guide, Mikohn Gaming Corp and Equant N.V.	54
Patrick L. Donnelly	EVP, General Counsel, Secretary	Acting CFO, Sirius (Aug 99 - Apr 01) VP & Dpty General Counsel, ITT Corp. Associate at Simpson, Thacher & Bartlett	47
David J. Frear	EVP & CFO	EVP & CFO, SAVVIS Communications SVP & CFO, Orion Network Systems CFO, Millicom Held mgmt positions at Bear, Stearns & Co., Credit Suisse, Transway International and Deloitte & Touche	52
Dara F. Altman	EVP & Chief Admin. Officer	EVP of Business & Legal Affairs, Sirius (Jan 06-Sept 08) EVP of Business Affairs, Discovery Communications (1997-2005) SVP & General Counsel, Reiss Media Enterprises (1993-1997)	50

Source: Sirius and XM Websites, as of October 7, 2009

Overseeing a company with a plunging stock price, and one that had a close call with bankruptcy, may have tarnished Karmazin's once golden reputation from traditional radio. However, he has aligned his interests with shareholders, buying significant holdings of Sirius XM stock with his own money. We also believe that much of the difficulty that beset Sirius was due to unfortunate timing, with credit markets freezing just as the delayed approval of the merger came through.



We believe that Karmazin and his team have a solid track record controlling costs (the Howard Stern deal was signed before he arrived.) Plus, he aggressively outmaneuvered XM to make Sirius the winner in satellite radio. We believe he is fully capable of capitalizing on the opportunity in front of the company.

**Exhibit 53. Sirius XM Common Stock Directors**

Name	Age	Position	Dir. Since
Joan Arnable	55	Director of XM Satellite Radio (Dec 06-Jul 08) Executive Vice President and Corporate Comptroller, American Express (Dec 03-Present ) COO and CFO, GE Capital Markets (1994-Mar 03)	July, 2008
Leon D. Black	54	Founding Principal, Apollo Advisors, L.P. and Lion Advisors, L.P. Founder, Apollo Real Estate Advisors, L.P. Former Managing Director, head of the M&A Group, co-head of the Corporate Dept., Drexel Burnham Lambert Inc. Director, Sequa Corporation Director, United Rentals, Inc. Director, Allied Waste Industries, Inc. Director, AMC Entertainment Inc. Director, Windham International Inc. Trustee, The Museum of Modern Art Trustee, Mt. Sinai Hospital Trustee, The Metropolitan Museum of Art Trustee, Lincoln Center for the Performing Arts Trustee, Prep for Prep Trustee, The Jewish Museum Trustee, The Asia Society Trustee, Dartmouth College Trustee, Vail Valley Foundation	June, 2001
Lawrence F. Gilberti	55	Partner, Reed Smith LLP (Jun 00-Present ) Counsel, Reed Smith LLP (May 98-May 00) Partner, Fischbein Badillo Wagner & Harding (Aug 94-May 98)	September, 1993
Eddy W. Hartenstein	58	Non-executive Chairman of the Board (present) Director of XM Satellite Radio (May 05-Jul 08) Publisher and CEO, LA Times (Aug 08 - Present) Vice Chairman and Board Member, DirecTV (Dec 03-Dec 04) Chairman and CEO, DirecTV (2001-2004) President, DirecTV (1990-2001)	July, 2008
James P. Holden	54	Former President and CEO, DaimlerChrysler Corporation (Oct 99-Nov 00)	August, 2001
Chester A. Huber	54	Director of XM Satellite Radio (Jan 02-Jul 08) President, OnStar (Dec 99-Present ) General Manager, OnStar (Jun 95-Dec 99) Former General Director of Aftermarket Parts and Services, GM Former General Director of Sales, Marketing and Product Support, GM Former member of Federal Advisory Committee for Center for Disease Control (CDC) Member of NASA committee for Global Positioning Systems (GPS)	July, 2008
Mel Karmazin	62	CEO and Director (Nov 04 - Present ) President and COO, Viacom Inc (May 00 - June 04) President and CEO, CBS Corp (Jan 99 - Apr 00) President and COO, CBS Corp (Apr 98 - Dec 98) Chairman and CEO, CBS Radio (Dec 96 - Apr 98) President and CEO, Infinity Broadcasting Corp (1981- 1996)	November, 2004
John W. Mendel	54	Director of XM Satellite Radio (May 05-Jul 08) Executive Vice President - Automobile Operations, Honda Motor Co. (Dec 04-Present ) Executive Vice President and COO, Mazda North America (Jan 02-Nov 04)	July, 2008
James F. Mooney	54	Director and Chairman of the Board, Virgin Media (Mar 03-Present ) Chairman of the Board, RCN (Dec 04-Dec 07) Executive Vice President and COO, Nextel (Apr 01-Sept 02) CEO and COO, Tradeout Inc Asset Management (Jan 00-Jan 01) CFO and COO, Baan Company (Mar 99-Jan 00) Former Employee and CFO of Americas, IBM (1980-1999)	July, 2003
Jack Shaw	70	Director of XM Satellite Radio (May 97-Jun 08) Director of Globecom Systems (Present) Former CEO, Hughes Electronics Corporation (Jan 00-Dec 03) Former CEO and Chairman, Hughes Network Systems (1987-Jan 00)	July, 2008

Source: Company Website, and proxy statement dated April 30, 2009



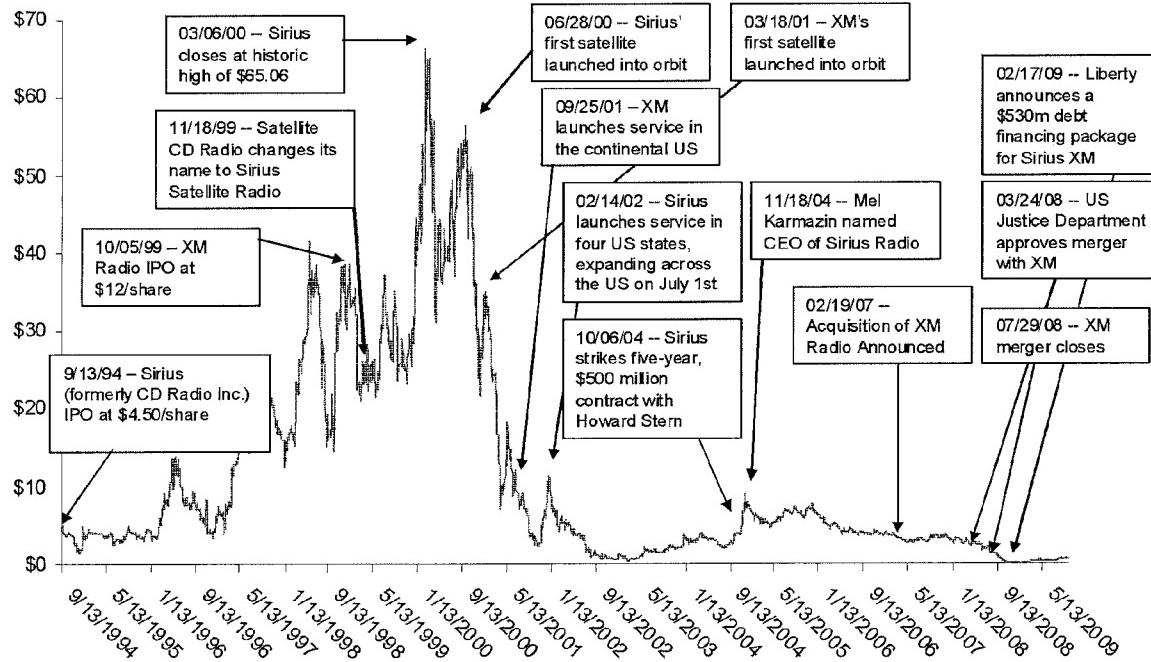
### Exhibit 54. Sirius XM Preferred Stock Directors

Name	Age	Position	Dr. Since
Gregory B. Maffei	48	CEO and President of Liberty Media Corporation (Feb 09-Present) Director, Liberty Media Corporation (Nov 05-Present) CEO-Elect of Liberty Media Corporation (Nov 05-Feb 06) Former President and CFO, Oracle (Jun 05-Nov 05) Chairman and CEO, 360Networks (Jan 00-Jun 05) Former CFO, Microsoft Former Chairman, Expedia Director, DirecTV Group Director, Electronic Arts Inc.	March, 2009
John C. Malone	68	Chairman of the Board and Director, Liberty Media Corporation (May 06-Present) Former Chairman of the Board and Director, Liberty Media Corporation LLC (1994-May 06) Former CEO, Liberty Media Corporation LLC (Aug 05-Feb 05) Former Chairman of the Board, TCI (Nov 96-Mar 97) Former CEO, TCI (Jan 94-Mar 97) Chairman of the Board, Liberty Global Chairman of the Board, DirecTV Group Director, Discovery Communications Director, InterActive Corp Director, Expedia	April, 2009
David J.A. Flowers	54	Senior Vice President and Treasurer, Liberty Media Corp (Mar 06-Present) Former Senior Vice President, Liberty Media LLC (Oct 00-Mar 06) Former Treasurer, Liberty Media LLC (Jun 95-Oct 00) Director, Interval Leisure Corp	

Source: Company Website, and proxy statement dated April 30, 2009

### OTHER BACKGROUND INFORMATION

#### Exhibit 55. Sirius Stock Price History



Source: Factset, company reports


**Exhibit S6. Sirius Automaker Factory-Install Partner Details**

Automaker	Brand	Model	Model	Model	Free Trial	Date Extended	Contract End
Aston Martin	Aston Martin	DB 9	DB S	Vantage			
BMW	BMW	1 Series	3 Series	5 Series	1 yr.	13-Sep-05	Sep-2008
		7 Series	M Models	X3 SAV			
		X5 SAV	X6 SAV	Z4 Models			
	MINI	Clubman	Clubman S	Cooper			
		Cooper S	Cooper Convertible				
Chrysler	Chrysler	300 Series	Aspen	Pacifica	1 yr.	13-Feb-08	Sep-2017
		PT Cruiser	Sebring	Sebring Convertible			
		Town & Country					
	Dodge	Avenger	Caliber	Challenger			
		Charger	Dakota	Durango			
		Grand Caravan	Journey	Magnum			
		Nitro	Ram Truck	Viper			
	Jeep	Commander	Compass	Grand Cherokee			
		Liberty	Patriot	Wrangler			
		Wangler Unlimited					
Daimler AG	Maybach	57	62	CLK-Class	6 mo. - 1 yr.	17-Nov-05	Sep-2012
	Mercedes-Benz	C-Class	CL-Class	G-Class			
		CLS-Class	E-Class	R-Class			
		GL-Class	M-Class	SLK-Class			
		S-Class	SL-Class				
Ford	Ford	Edge	Escape	Escape Hybrid	6 mo.	27-Nov-07	Sep-2016
		Expedition	Expedition EL	Explorer			
		F-150	Flex	Focus			
		Fusion	Mustang	Ranger			
		Sport-Trac	Super Duty	Taurus			
		Taurus X					
	Lincoln	MKS	MKX	MKZ			
		Navigator	Navigator L				
	Mazda	CX-7	CX-9	MAZDA3			
		MAZDA5	MAZDA6	MX-5			
		RX-8	Tribute				
	Mercury	Mariner	Mariner Hybrid	Milan			
		Mountaineer	Sable				
	Volvo	C30	C70	S40			
		S60	S80	V50			
		V70	XC60	XC70			
		XC90					
Hyundai	KIA	Armanti	Borrego	Optima	3 mo.	13-Apr-06	2014, option to 2017
		Rio	Rondo	Sedona			
		Soul	Spectra	Sportage			
Mitsubishi	Mitsubishi	Eclipse	Eclipse Spyder	Endeavor	6 mo.	31-Jul-06	Feb-2010
		Galant	Lancer	Lancer Evolution			
		Outlander					
Porsche	Audi	A3	A4	A5	3 mo.	17-Mar-06	Sep-2012
		A6	A8	Audi Q5			
		Audi Q7	R8	TT Coupe			
		TT Roadster					
	Bentley	Arnage	Azure	Brooklands			
		Continental GT	Continental GTC	Flying Spur	Lifetime	30-Oct-06	2012
Lamborghini	Volkswagen	Murcielago					
		CC	Eos	GL1	Lifetime	19-Jun-08	
		GTI	Jetta	New Beetle	3 mo.	17-Mar-06	Sep-2012
		New Beetle Convertible	Passat	R32			
		Rabbit	Routan	Tiguan			
		Touareg					
Rolls Royce	Rolls Royce	Drophead Coupe	Phantom		Lifetime	11-Jan-06	2008
Tata	Jaguar	XF	XJ				
	Land Rover	LR2	LR3	Range Rover			
		Range Rover Sport					

Source: Sirius and XM Websites, as of October 7, 2009


**Exhibit 57. XM Automaker Factory-Install Partners**

Automaker	Brand	Model	Model	Model	Free Trial	Date Extended	Contract End
Ferrari	Ferrari	612 Scaglietti			3 Years		
GM	Buick	Enclave	LaCrosse	Lucerne	3 Months	2009	2020
	Cadillac	CTS	CTS-V	DTS			
		Escalade	EXT	ESV			
		SRX Crossover	STS	STS-V			
		VLR	XLR-V				
	Chevrolet	Avalanche	Cobalt	Colorado			
		Corvette	Equinox	HHR			
		Impala	Malibu	Malibu Hybrid			
		Silverado	Suburban	Tahoe			
		Tahoe Hybrid	Trailblazer	Uplander			
	GMC	Acadia	Canyon	Envoy			
		Sierra	Sierra Denali	Yukon			
		Yukon XL	Yukon Denali	XL Denali			
		Yukon Hybrid					
	Hummer	H2	H2 SUT	H3			
	Pontiac	G5	G6	Grand Prix			
		Solstice	Torrent	Vibe			
	SAAB	9 3	9 5	9-7X			
		Turbo X					
	Saturn	Aura	Aura Hybrid	Outlook			
		Sky	Vue	Vue Hybrid			
Suzuki	Suzuki	Equator	Grand Vitara	SX4 Crossover	3 Months		
		SX4 Crossover Sport					
Honda	Acura	MDX	RDX	RL	3 Months		
		TL	TSX				
	Honda	Accord	CR-V	Civic			
		Civic Hybrid	Element	Odyssey			
		Pilot	Ridgeline				
Hyundai	Hyundai	Accent	Azera	Elantra	3 Months		
		Genesis	Genesis Coupe	Santa Fe			
		Sonata	Tuscon	Veracruz			
Isuzu	Isuzu	Ascender			3 Months		
Lotus	Lotus	Elise			3 Months		
Nissan	Infiniti	EX	FX	G	3 Months		
		M	QX				
	Nissan	350 Z Coupe	Altima	Altima Coupe			
		Armada	Frontier	Maxima			
		Pathfinder	Quest	Rogue			
		Sentra	Titan	Versa			
		Xterra	Z				
Porsche	Porsche	911	Boxster	Cayenne	3 Months		
		Panamera					
Toyota	Lexus	ES	GS	HS	3 Months		
		IS-C	LS	LX			
		RX	SC				
	Scion	tC	xB	xD			
	Subaru	Forrester	Impreza	Impreza WRX			
		Legacy	Outback	Tribeca			
	Toyota	4Runner	Avalon	Camry			
		Camry Hybrid	FJ Cruiser	Highlander			
		Land Cruiser	Prius	RAV4			
		Sequoia	Sienna	Solara			
		Tundra					

Source: Sirius and XM Websites, as of October 7, 2009


**Exhibit 58. XM Motorcycle Factory-Install Partners**

Cyclemaker	Brand	Model	Trial Period
Harley Davidson	Harley Davidson	Dyna Low Rider	3 months
		Dyna Street Bob	
		Dyna Super Glide Custom	
		Dyna Wide Glide	
		Electra Glide Classic	
		Electra Glide Standard	
		Fat Boy	
		Heritage Softail Classic	
		Road Glide	
		Road King	
		Road King Classic	
		Screamin' Eagle Ultra Classic Electra Glide	
		Softail Deluxe	
		Street Glide	
		Ultra Classic Electra Glide	
Kawasaki	Kawasaki	Vulcan 1600 Nomad	3 months

Source: Sirius and XM Websites, as of October 7, 2009

**FINANCIAL MODELS**
**Exhibit 59. Sirius XM GAAP Income Statement (\$ in millions, except per share)**

Period	2008	1Q09	2009	3Q09A	4Q09E	2008E	1Q10E	2Q10E	3Q10E	4Q10E	2010E	2011E	2012E	2013E	2014E	2015E
Subs & Activation	\$1,544	\$556	\$562	\$578	\$596	\$2,282	\$586	\$595	\$510	\$623	\$2,415	\$2,527	\$2,665	\$2,831	\$3,014	\$3,222
Advertising	47	12	13	12	13	50	13	13	13	13	50	51	54	58	62	67
Equipment	56	10	11	11	27	59	11	13	11	31	67	70	73	75	78	80
Other	17	8	6	17	42	74	57	69	72	72	271	291	285	283	284	289
Total Revenues	1,664	587	591	619	678	2,475	667	691	706	739	2,802	2,939	3,077	3,247	3,439	3,659
y/y % chg	80.5%	117.1%	108.8%	26.7%	9.0%	48.7%	13.7%	16.9%	14.1%	8.9%	13.2%	4.9%	4.7%	5.5%	5.9%	6.4%
Sat. & Transm.	(\$55)	(\$20)	(\$18)	(\$18)	(\$20)	(\$76)	(\$20)	(\$20)	(\$20)	(\$20)	(\$81)	(\$82)	(\$84)	(\$85)	(\$87)	(\$89)
Programming	(300)	(78)	(70)	(75)	(95)	(319)	(81)	(69)	(76)	(88)	(315)	(315)	(306)	(311)	(315)	(320)
Cust Care & Billing	(163)	(59)	(58)	(56)	(63)	(237)	(59)	(58)	(66)	(63)	(235)	(234)	(240)	(247)	(255)	(265)
Rev Shr & Royalties	(281)	(100)	(96)	(101)	(109)	(406)	(114)	(117)	(119)	(123)	(473)	(509)	(563)	(622)	(716)	(771)
Cost of equip	(46)	(8)	(8)	(12)	(16)	(44)	(9)	(10)	(12)	(18)	(60)	(53)	(55)	(56)	(58)	(60)
Sales & Mktg	(218)	(48)	(46)	(50)	(65)	(228)	(58)	(56)	(60)	(88)	(261)	(269)	(288)	(306)	(326)	(348)
SAC	(371)	(73)	(68)	(90)	(107)	(338)	(79)	(89)	(95)	(122)	(385)	(413)	(463)	(485)	(464)	(495)
G&A	(164)	(49)	(46)	(48)	(48)	(191)	(48)	(48)	(48)	(48)	(194)	(194)	(194)	(194)	(184)	(194)
Engineer & Dev	(34)	(8)	(10)	(10)	(10)	(39)	(10)	(10)	(10)	(10)	(42)	(42)	(42)	(42)	(42)	(42)
Stock Comp.	(87)	(20)	(30)	(18)	(18)	(85)	(18)	(18)	(18)	(18)	(71)	(71)	(73)	(74)	(75)	(75)
D&A	(204)	(82)	(77)	(72)	(52)	(284)	(52)	(52)	(56)	(56)	(217)	(234)	(252)	(271)	(292)	(314)
Other tx	(4,777)	(1)	(27)	(3)	0	(30)	0	0	0	0	0	0	0	0	0	0
Oper. Inc.	(5,037)	41	37	66	54	199	119	144	135	83	481	524	519	554	615	687
Int. Income	\$9	\$1	\$1	\$1	\$1	\$3	\$1	\$0	\$0	\$1	\$2	\$2	\$2	\$3	\$3	\$7
Int. Expense	(145)	(66)	(96)	(79)	(73)	(313)	(72)	(72)	(72)	(72)	(288)	(286)	(277)	(250)	(226)	(213)
Taxes	(2)	(1)	(1)	(1)	(1)	(4)	(1)	(1)	(1)	(1)	(4)	(4)	(4)	(4)	(4)	(4)
Other tx	(138)	(212)	(99)	(137)	0	(447)	0	0	0	0	0	0	0	0	0	0
GAAP Net Inc.	(5,313)	(237)	(167)	(149)	(19)	(562)	46	71	62	11	190	237	239	303	387	477
Fdil EPS, GAAP	(\$2.45)	(\$0.07)	(\$0.04)	(\$0.04)	(\$0.01)	(\$0.16)	\$0.01	\$0.01	\$0.01	\$0.00	\$0.03	\$0.04	\$0.04	\$0.05	\$0.06	\$0.08
Avg Basic Shrs.	2,169.5	3,523.9	3,586.7	3,621.1	3,621.1	3,585.2	3,621.1	3,621.1	3,621.1	3,621.1	3,621.1	3,621.1	3,621.1	3,621.1	3,621.1	3,621.1
Avg. Fdil Shrs.	2,169.5	3,523.9	3,586.7	3,621.1	3,621.1	3,585.2	6,208.0	6,208.0	6,208.0	6,208.0	6,208.0	6,208.0	6,208.0	6,209.4	6,211.4	6,213.1

Source: LCM Research estimates, company reports


**Exhibit 60. Sirius XM Pro Forma Income Statement (\$ in millions, except per share)**

Period	2008	1Q09	2Q09	3Q09A	4Q09E	2009E	1Q10E	2Q10E	3Q10E	4Q10E	2010E	2011E	2012E	2013E	2014E	2015E
Subs & Activation	\$2,252	\$576	\$577	\$587	\$603	\$2,344	\$592	\$600	\$814	\$626	\$2,432	\$2,534	\$2,668	\$2,831	\$3,014	\$3,222
Advertising	70	12	13	12	13	50	13	13	13	13	50	51	54	58	62	67
Equipment	69	10	11	11	27	69	11	13	11	31	67	70	73	75	78	80
Other	45	7	7	19	44	78	59	71	74	74	278	298	292	290	292	297
Total Revenues	2,437	605	608	630	657	2,530	675	697	712	743	2,827	2,953	3,088	3,254	3,446	3,666
y/y % chg	18.4%	4.6%	1.1%	2.7%	6.7%	3.8%	11.5%	14.7%	13.0%	8.2%	11.7%	4.5%	4.6%	5.4%	5.9%	6.4%
Sat. & Transm.	(\$99)	(\$20)	(\$19)	(\$19)	(\$20)	(\$77)	(\$20)	(\$20)	(\$20)	(\$81)	(\$82)	(\$84)	(\$85)	(\$87)	(\$89)	
Programming	(447)	(97)	(88)	(93)	(105)	(383)	(91)	(79)	(86)	(98)	(355)	(355)	(346)	(351)	(355)	(360)
Cust. Care & Billing	(244)	(60)	(58)	(56)	(63)	(237)	(59)	(58)	(56)	(63)	(235)	(234)	(240)	(247)	(255)	(265)
Rev. Shr. & Royalty	(478)	(121)	(118)	(124)	(132)	(494)	(137)	(140)	(142)	(146)	(565)	(600)	(656)	(713)	(716)	(771)
Equip. Cost	(66)	(8)	(8)	(12)	(16)	(44)	(9)	(10)	(12)	(18)	(30)	(35)	(36)	(58)	(60)	(60)
Sales & Mktg	(342)	(51)	(49)	(53)	(88)	(240)	(61)	(59)	(63)	(91)	(273)	(281)	(294)	(309)	(328)	(349)
SAC	(577)	(84)	(81)	(109)	(126)	(400)	(99)	(108)	(114)	(141)	(462)	(490)	(501)	(504)	(474)	(500)
G&A	(267)	(49)	(46)	(48)	(48)	(191)	(48)	(48)	(48)	(48)	(194)	(194)	(194)	(194)	(194)	(194)
Engineer. & Dev.	(53)	(8)	(10)	(10)	(10)	(39)	(10)	(10)	(10)	(10)	(42)	(42)	(42)	(42)	(42)	(42)
Adj. EBITDA	(136)	109	132	106	78	425	141	165	159	107	571	622	678	752	937	1,037
y/y % chg	75.9%	255.1%	316.3%	388.0%	144.8%	411.8%	29.4%	24.5%	49.8%	37.4%	34.5%	8.8%	9.1%	11.0%	24.5%	10.7%
margin %	-5.6%	18.0%	21.8%	16.9%	11.3%	16.8%	20.9%	23.6%	22.3%	14.4%	20.2%	21.0%	22.0%	23.1%	27.2%	28.3%
Stock comp	(\$125)	(\$21)	(\$31)	(\$19)	(\$19)	(\$90)	(\$19)	(\$19)	(\$19)	(\$19)	(\$75)	(\$75)	(\$75)	(\$75)	(\$75)	(\$75)
D&A	(246)	(51)	(46)	(48)	(52)	(198)	(52)	(52)	(56)	(56)	(217)	(234)	(252)	(271)	(292)	(314)
Other. 1x	(10)	(1)	(27)	(3)	0	(30)	0	0	0	0	0	0	0	0	0	0
Oper. Inc.	(517)	35	28	37	7	107	70	94	84	32	279	313	351	406	570	648
Interest, taxes, other, net	(\$385)	(\$98)	(\$159)	(\$219)	(\$73)	(\$575)	(\$73)	(\$73)	(\$73)	(\$73)	(\$291)	(\$288)	(\$280)	(\$262)	(\$227)	(\$210)
Net Income	(902)	(63)	(171)	(182)	(67)	(468)	(3)	21	11	(41)	(12)	25	71	155	343	438
Fdil EPS	(\$0.30)	(\$0.02)	(\$0.05)	(\$0.05)	(\$0.02)	(\$0.13)	(\$0.00)	\$0.00	\$0.00	(\$0.01)	(\$0.01)	\$0.00	\$0.01	\$0.02	\$0.06	\$0.07
Avg Basic Shrs.	2,980.0	3,523.9	3,586.7	3,621.1	3,621.1	3,588.2	3,621.1	3,621.1	3,621.1	3,621.1	3,621.1	3,621.1	3,621.1	3,621.1	3,621.1	3,621.1
Avg. Fdil Shrs.	2,879.4	3,523.9	3,586.7	3,621.1	3,621.1	3,588.2	3,621.1	6,208.0	6,208.0	3,621.1	6,208.0	6,208.0	6,208.0	6,209.4	6,211.4	6,213.1

Source: LCM Research estimates, company reports

**Exhibit 61. Sirius XM Pro Forma Free Cash Flow (\$ in millions, except per share)**

Period	2008	1Q09	2Q09	3Q09A	4Q09E	2009E	1Q10E	2Q10E	3Q10E	4Q10E	2010E	2011E	2012E	2013E	2014E	2015E
<b>PF Free Cash Flow</b>																
PF Cash From Oper.	(\$388)	\$67	\$70	\$116	\$67	\$320	\$10	\$138	\$140	\$104	\$392	\$430	\$461	\$576	\$795	\$923
- PF Capex	(158)	(71)	(57)	(90)	(15)	(232)	(75)	(125)	(40)	(40)	(280)	(185)	(60)	(62)	(64)	(66)
= PF Free Cash Flow	(546)	(4)	13	27	52	88	(65)	13	100	64	112	245	401	514	731	858
y/y % chg	-8.7%	98.6%	108.1%	123.3%	44.0%	116.1%	#####	-3.4%	273.8%	22.8%	27.1%	118.7%	63.6%	28.2%	42.4%	17.2%
Fdil. FCF/Shr	(\$0.18)	(\$0.00)	\$0.00	\$0.00	\$0.01	\$0.01	(\$0.02)	\$0.00	\$0.02	\$0.01	\$0.02	\$0.04	\$0.06	\$0.08	\$0.12	\$0.14
<b>PF Taxed Unlevered FCF</b>																
Adj. EBITDA	(\$136)	\$109	\$132	\$106	\$78	\$425	\$141	\$165	\$159	\$107	\$571	\$622	\$678	\$752	\$937	\$1,037
- PF taxes (@ 40% rate)	0	0	0	0	0	0	(7)	(16)	(12)	0	(36)	(47)	(60)	(94)	(169)	(207)
+/- Deferred Revenue	56	48	(23)	(13)	131	142	(16)	51	44	25	103	88	45	60	72	82
++/- Chg in W/C	(35)	(30)	22	90	(69)	13	(43)	(6)	9	44	4	4	14	10	9	10
- Capex	(131)	(71)	(57)	(90)	(15)	(232)	(75)	(125)	(40)	(40)	(280)	(185)	(60)	(62)	(64)	(66)
= PF Taxed Unlevered FCF	(246)	55	75	93	125	348	(0)	68	159	136	363	482	616	667	785	856
PF Taxed UFCF/Shr	(\$0.06)	\$0.01	\$0.01	\$0.02	\$0.02	\$0.06	(\$0.00)	\$0.01	\$0.03	\$0.02	\$0.06	\$0.08	\$0.10	\$0.11	\$0.13	\$0.14
<b>PF Taxes</b>																
Adj. EBITDA	(\$136)	\$109	\$132	\$106	\$78	\$425	\$141	\$165	\$159	\$107	\$571	\$622	\$678	\$752	\$937	\$1,037
- D & A	(246)	(51)	(46)	(48)	(52)	(198)	(52)	(52)	(56)	(56)	(217)	(234)	(252)	(271)	(292)	(314)
+ Interest Income	9	1	1	1	1	3	1	0	1	2	2	2	3	3	7	7
- Interest Expense	(145)	(66)	(96)	(79)	(73)	(313)	(72)	(72)	(72)	(72)	(288)	(286)	(277)	(250)	(226)	(213)
= PF Adj. Pre-tax Income	(516)	(8)	(9)	(19)	(47)	(63)	17	41	31	(21)	68	105	151	234	423	518
x tax rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	40.0%	40.0%	40.0%	0.0%	52.3%	44.5%	40.0%	40.0%	40.0%	40.0%
= PF Taxes Paid	\$0	\$0	\$0	\$0	\$0	\$0	(\$7)	(\$16)	(\$12)	\$0	(\$36)	(\$47)	(\$60)	(\$94)	(\$169)	(\$207)

Source: LCM Research estimates, company reports


**Exhibit 62. Sirius XM Balance Sheet (\$ in millions, except per share)**

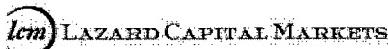
Period	2008	1Q09	2Q09	3Q09A	4Q09E	2009E	1Q10E	2Q10E	3Q10E	4Q10E	2010E	2011E	2012E	2013E	2014E	2015E
Cash & Equiv.	\$380	\$375	\$542	\$380	\$345	\$345	\$280	\$293	\$393	\$457	\$457	\$312	\$468	\$482	\$1,208	\$1,821
Receivables	148	140	111	129	141	141	139	144	147	154	154	160	168	177	188	200
Prepaid Exp.	67	124	120	107	129	129	112	111	116	136	136	140	148	155	163	171
Other	197	199	194	194	199	199	195	195	196	200	200	201	202	204	205	207
Total Current Assets	793	839	967	811	814	814	726	743	852	946	946	813	986	1,018	1,764	2,398
PP&E/Construction	\$1,703	\$1,697	\$1,691	\$1,694	\$1,657	\$1,657	\$1,680	\$1,753	\$1,736	\$1,720	\$1,720	\$1,671	\$1,480	\$1,271	\$1,043	\$794
DARS License	2,084	2,084	2,084	2,084	2,084	2,084	2,084	2,084	2,084	2,084	2,084	2,084	2,084	2,084	2,084	2,084
Intangibles	689	668	648	629	629	629	629	629	629	629	629	629	629	629	629	629
Goodwill	1,835	1,835	1,835	1,835	1,835	1,835	1,835	1,835	1,835	1,835	1,835	1,835	1,835	1,835	1,835	1,835
Other	387	362	283	216	216	216	216	216	216	216	216	216	216	216	216	216
Total Assets	7,491	7,485	7,507	7,289	7,235	7,235	7,169	7,260	7,352	7,430	7,430	7,248	7,230	7,052	7,570	7,956
A/P & Accr. Exp	\$643	\$571	\$513	\$522	\$492	\$492	\$426	\$423	\$441	\$516	\$516	\$531	\$562	\$591	\$618	\$650
Cur. Def. Revs	985	1,042	996	987	1,068	1,088	1,076	1,116	1,149	1,168	1,168	1,236	1,271	1,317	1,373	1,437
Cur. Deb't	400	356	286	104	104	104	104	104	104	104	104	104	104	104	104	104
Other	380	372	377	404	404	404	404	404	404	404	404	404	404	404	404	404
Total Cur. Liabilities	2,407	2,340	2,171	2,016	2,088	2,088	2,009	2,047	2,098	2,192	2,192	2,275	2,340	2,415	2,499	2,594
Def. Revs	\$248	\$251	\$285	\$285	\$315	\$315	\$311	\$323	\$332	\$338	\$338	\$358	\$368	\$381	\$397	\$415
Executive Contracts	0	980	619	852	806	806	758	709	659	609	609	402	236	89	45	7
LT Debt	2,852	2,528	2,807	2,874	2,787	2,787	2,787	2,787	2,787	2,787	2,787	2,397	2,152	1,652	1,647	1,402
Def. Tax Liability	894	905	900	906	908	908	909	910	911	912	912	916	921	925	930	934
LT Rel. Party Debt	0	186	222	266	266	266	266	266	266	266	266	266	266	266	266	266
Other	44	49	59	61	61	61	61	61	61	61	61	61	61	61	61	61
Total Liabilities	6,445	7,240	7,364	7,261	7,229	7,229	7,100	7,101	7,114	7,164	7,164	6,674	6,343	5,789	5,845	5,679
Shr. Equity	\$9	\$245	\$144	\$8	\$6	\$6	\$70	\$158	\$238	\$267	\$267	\$574	\$886	\$1,263	\$1,725	\$2,277

Source: LCM Research estimates, company reports

**Exhibit 63. Sirius XM Statement of Cash Flows (\$ in millions, except per share)**

Period	2008	1Q09	2Q09	3Q09A	4Q09E	2009E	1Q10E	2Q10E	3Q10E	4Q10E	2010E	2011E	2012E	2013E	2014E	2015E
Net Income	(\$5,313)	(\$50)	(\$157)	(\$149)	(\$19)	(\$576)	\$46	\$71	\$82	\$11	\$190	\$237	\$239	\$303	\$387	\$477
Depreciation	\$204	\$82	\$77	\$72	\$62	\$284	\$52	\$52	\$56	\$56	\$217	\$234	\$252	\$271	\$292	\$314
Non Cash Interest	(\$6)	\$4	\$22	\$6	\$0	\$33	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Stock Comp	\$67	\$20	\$30	\$18	\$18	\$85	\$18	\$18	\$18	\$18	\$71	\$71	\$73	\$74	\$75	\$75
Purchase Price Adj.	\$2	(\$41)	(\$44)	(\$57)	(\$46)	(\$189)	(\$48)	(\$49)	(\$50)	(\$51)	(\$197)	(\$207)	(\$166)	(\$147)	(\$44)	(\$38)
Deferred Revs	\$56	\$48	(\$23)	(\$13)	(\$13)	\$142	(\$16)	\$51	\$44	\$25	\$103	\$88	\$45	\$60	\$72	\$82
Other W/C	(\$35)	(\$30)	(\$22)	(\$90)	(\$69)	\$13	(\$43)	(\$6)	(\$9)	(\$4)	\$4	\$4	\$14	\$10	\$9	\$10
Other	\$4,853	\$34	\$143	\$150	\$1	\$328	\$1	\$1	\$1	\$1	\$404	\$430	\$461	\$575	\$795	\$923
Cash From Oper.	(\$153)	\$67	\$70	\$116	\$67	\$320	\$10	\$138	\$140	\$104	\$392	\$430	\$461	\$575	\$795	\$923
Capex	(\$131)	(\$71)	(\$57)	(\$90)	(\$15)	(\$232)	(\$75)	(\$125)	(\$40)	(\$40)	(\$280)	(\$185)	(\$60)	(\$62)	(\$64)	(\$66)
Other	\$859	\$1	(\$1)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Cash From Invest.	\$728	(\$71)	(\$67)	(\$90)	(\$15)	(\$232)	(\$75)	(\$125)	(\$40)	(\$40)	(\$280)	(\$185)	(\$60)	(\$62)	(\$64)	(\$66)
Stock Issue(Buy)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Debt Chg.	(\$614)	\$2	\$154	(\$188)	(\$88)	(\$120)	\$0	\$0	\$0	\$0	(\$390)	(\$245)	(\$500)	(\$5)	(\$245)	
Other	(\$20)	(\$4)	\$9	\$0	\$0	(\$4)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Cash From Fin.	(\$634)	(\$1)	\$154	(\$188)	(\$88)	(\$124)	\$0	\$0	\$0	\$0	(\$390)	(\$245)	(\$500)	(\$5)	(\$245)	
Net Change. Cash	(\$68)	(\$5)	\$166	(\$161)	(\$35)	(\$36)	(\$65)	\$13	\$100	\$64	\$112	(\$145)	\$156	\$14	\$726	\$813

Source: LCM Research estimates, company reports


**Exhibit 64. Sirius XM Pro Forma Subscriber Metrics (000)**

Period	2008	1Q09	2Q09	3Q09A	4Q09E	2009E	1Q10E	2Q10E	3Q10E	4Q10E	2010E	2011E	2012E	2013E	2014E	2015E
Retail EOP	8,905	8,637	8,236	7,926	7,726	7,726	7,437	7,162	6,878	6,699	6,699	5,709	4,774	3,973	3,293	2,720
OEM EOP	9,996	9,958	10,082	10,489	10,946	10,946	11,079	11,407	11,764	11,976	11,976	13,233	14,706	16,113	17,524	18,917
Other EOP	103	104	96	101	101	101	101	101	101	101	101	101	101	101	101	101
Total Subs, EOP	19,004	18,599	18,413	18,516	18,773	18,773	18,617	18,670	18,743	18,776	18,776	19,043	19,581	20,187	20,919	21,738
y/y % chg	9.5%	3.5%	-0.9%	-2.1%	-1.2%	-1.2%	0.7%	1.4%	1.2%	0.0%	0.0%	1.4%	2.8%	3.1%	3.6%	3.9%
Total Gross Adds	7,714	1,339	1,380	1,606	1,532	5,856	1,537	1,704	1,678	1,713	6,632	7,055	7,354	7,843	8,046	
y/y % chg	-4.6%	-34.4%	-34.6%	-13.0%	-10.6%	-24.1%	14.8%	23.4%	4.5%	11.8%	13.2%	6.4%	4.2%	2.6%	4.0%	2.6%
- Total Churn	(6,056)	(1,743)	(1,566)	(1,504)	(1,275)	(6,089)	(1,693)	(1,650)	(1,606)	(1,680)	(6,629)	(6,787)	(6,817)	(6,937)	(7,111)	(7,226)
= Total Net Adds	1,655	(404)	(186)	102	257	(231)	(166)	53	73	33	3	267	537	606	732	819
Retail Gross Adds	1,605	205	200	173	261	839	205	200	173	261	839	671	537	429	344	275
y/y % chg	-38.6%	-56.9%	-56.8%	-44.9%	-25.9%	-47.7%	0.0%	0.0%	0.0%	0.0%	0.0%	-20.0%	-20.0%	-20.0%	-20.0%	-20.0%
- Retail Churn	(1,936)	(573)	(501)	(483)	(461)	(2,018)	(494)	(475)	(457)	(440)	(1,866)	(1,661)	(1,472)	(1,230)	(1,023)	(848)
= Retail Net Adds	(334)	(368)	(301)	(310)	(200)	(1,179)	(289)	(275)	(284)	(179)	(1,027)	(990)	(935)	(801)	(680)	(573)
OEM Gross Adds	6,083	1,133	1,188	1,428	1,271	5,020	1,333	1,504	1,505	1,452	5,793	6,384	6,818	7,113	7,500	7,771
y/y % chg	12.1%	-27.0%	-27.3%	-6.7%	-6.9%	-17.5%	17.6%	26.6%	5.4%	14.2%	15.4%	10.2%	6.8%	4.3%	5.4%	3.6%
- OEM Churn	(4,120)	(1,170)	(1,065)	(1,021)	(814)	(4,071)	(1,199)	(1,175)	(1,148)	(1,240)	(4,763)	(5,126)	(5,345)	(5,707)	(6,088)	(6,378)
= OEM Net Adds	1,963	(38)	123	407	457	950	133	328	357	212	1,030	1,258	1,473	1,407	1,412	1,392
Other Net Adds	26	1	(8)	5	0	(2)	0	0	0	0	0	0	0	0	0	0
Self-Pay Net Adds	1,676	(113)	(15)	35	247	154	(130)	(213)	(137)	66	(414)	(169)	(46)	(7)	305	389
Self-Pay Subs, EOP	15,550	15,436	15,421	15,457	15,704	15,704	15,574	15,361	15,224	15,290	15,290	15,121	15,075	15,068	15,373	15,762
Promo Net Adds	(21)	(291)	(171)	67	10	(385)	(26)	266	209	(38)	417	436	584	613	427	431
Promo Subs, EOP	3,454	(3,163)	2,992	3,059	3,069	3,044	3,309	3,519	3,486	3,486	3,922	4,506	5,119	5,545	5,975	
Monthly Churn %, Self-Pay	1.80%	2.20%	2.00%	2.00%	1.97%	2.10%	2.20%	2.20%	2.20%	2.20%	2.20%	2.28%	2.28%	2.28%	2.28%	2.28%
OEM Conversion %	47.5%	44.9%	44.4%	46.8%	45.4%	45.6%	44.4%	44.4%	44.4%	44.4%	44.4%	44.4%	44.4%	44.4%	44.4%	44.4%
ARPU (subs + adv)	\$10.53	\$10.48	\$10.66	\$10.87	\$11.05	\$10.76	\$10.79	\$10.97	\$11.19	\$11.38	\$11.08	\$11.41	\$11.75	\$12.11	\$12.47	\$12.85
y/y % chg	-0.7%	-0.5%	1.1%	3.9%	4.3%	2.2%	3.0%	2.9%	2.9%	3.0%	3.0%	2.9%	3.0%	3.0%	3.0%	3.0%
SAC/Gross Add.	\$74	\$61	\$57	\$69	\$75	\$66	\$63	\$61	\$69	\$75	\$67	\$67	\$66	\$64	\$58	\$60

Source: LCM Research estimates, company reports

**Exhibit 65. Sirius XM Pro Forma Auto Subscriber Detail (000)**

Period	2008	1Q09	2Q09	3Q09A	4Q09E	2009E	1Q10E	2Q10E	3Q10E	4Q10E	2010E	2011E	2012E	2013E	2014E	2015E
Car & Lt Truck Avg. SAAR	13,367	9,276	9,648	11,420	11,263	10,402	11,253	11,263	11,263	11,500	11,322	11,650	12,233	12,844	12,973	13,102
y/y % chg.	-18.8%	-40.3%	-33.1%	-12.0%	6.8%	-22.2%	21.4%	-1.4%	2.1%	8.9%	2.9%	5.0%	5.0%	1.0%	1.0%	1.0%
New Cars Sold	13,247	2,205	2,606	3,006	2,615	10,433	2,677	3,042	2,965	2,670	11,358	11,687	12,271	12,885	13,014	13,144
New Cars w/SatRad	6,635	1,229	1,323	1,598	1,333	5,483	1,632	1,912	1,849	1,641	7,035	7,241	7,603	7,984	8,063	8,144
% of car sales	50%	56%	51%	53%	51%	53%	61%	63%	62%	61%	62%	62%	62%	62%	62%	62%
Self-Pay Subs from New Cars	3,022	773	525	544	565	2,407	598	498	586	672	2,354	2,604	2,680	2,814	2,954	2,984
% of New Cars w/SatRad	45.6%	62.9%	39.7%	34.0%	42.4%	43.9%	36.6%	26.1%	31.7%	40.9%	33.5%	36.0%	35.2%	36.6%	36.6%	36.6%
memo: OEM Conversion %	47.5%	44.9%	44.4%	46.8%	45.6%	45.6%	44.4%	44.4%	44.4%	44.4%	44.4%	44.4%	44.4%	44.4%	44.4%	44.4%
Cume Cars w/SatRad	21,243	22,472	23,795	25,393	26,726	26,726	28,358	30,271	32,120	33,761	33,761	41,003	48,606	56,590	64,653	72,797
Used Cars Sold w/SatRad	1,528	517	652	736	731	2,638	844	949	990	1,237	4,020	6,421	8,163	8,121	11,004	13,076
New Subs from Used Cars	76	52	65	74	73	264	84	95	99	124	402	642	816	812	1,100	1,308
% of Used Cars Sold w/SatRad	5.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
+ OEM Promo Sub Adds	5,680	991	1,054	1,269	1,092	4,406	1,126	1,320	1,224	1,115	4,784	4,924	5,170	5,429	5,483	5,538
+ OEM Non Promo Sub Adds	326	90	68	86	106	350	122	89	183	213	607	817	831	872	916	925
+ Used Car Sub Adds	76	52	55	74	73	264	84	95	99	124	402	642	816	812	1,100	1,308
= OEM Sub Gross Adds	6,083	1,133	1,188	1,428	1,271	5,020	1,333	1,504	1,452	1,271	5,793	6,384	6,818	7,113	7,500	7,771
+ OEM Promo Sub Adds	5,680	991	1,054	1,269	1,092	4,406	1,126	1,320	1,224	1,115	4,784	4,924	5,170	5,429	5,483	5,538
- Promo Period Ending	(5,701)	(1,282)	(1,225)	(1,202)	(1,083)	(4,792)	(1,151)	(1,054)	(1,014)	(1,148)	(4,367)	(4,486)	(4,567)	(4,616)	(5,057)	(5,107)
= Net Chg, Promo Subs	(21)	(291)	(171)	67	10	(385)	(26)	266	209	(33)	417	436	584	613	427	431
+ Promo Period Ending	5,701	1,282	1,225	1,202	1,083	4,792	1,151	1,054	1,014	1,148	4,357	4,488	4,587	4,816	5,057	5,107
- From Churn Off	(2,945)	(732)	(650)	(587)	(364)	(2,333)	(676)	(644)	(610)	(689)	(2,620)	(2,702)	(2,738)	(2,876)	(3,018)	(3,049)
+ Promo (non sub) Convert	326	90	68	86	106	350	122	89	183	213	607	817	831	872	916	925
+ Used Car Gross Adds	76	52	65	74	73	264	84	95	99	124	402	642	816	812	1,100	1,308
- est OEM Self Pay Churn	(1,176)	(438)	(416)	(434)	(451)	(1,738)	(524)	(531)	(531)	(551)	(2,143)	(2,424)	(2,607)	(2,832)	(3,070)	(3,330)
= Net Change, OEM Self Pay	1,984	254	294	340	447	1,335	158	62	148	245	613	822	889	794	985	952
+ OEM Self Pay Subs, EOP	6,542	6,795	7,069	7,430	7,877	8,035	8,097	8,245	8,490	8,490	9,311	10,200	10,994	11,979	12,941	
+ OEM Promo Subs, EOP	3,454	3,163	2,992	3,059	3,069	3,044	3,309	3,519	3,486	3,486	3,922	4,506	5,119	5,545	5,976	
= OEM Subs, EOP	9,996	9,958	10,082	10,489	10,945	10,946	11,079	11,407	11,764	11,976	11,976	13,233	14,706	16,113	17,524	18,917

Source: LCM Research estimates, company reports


**Exhibit 66. Sirius XM Pro Forma Automaker Detail (000)**

Period	2008	1Q09	2Q09	3Q09A	4Q09E	2009E	1Q10E	2Q10E	3Q10E	4Q10E	2010E	2011E	2012E	2013E	2014E	2015E
GM Car Sales	2,955	410	538	589	535	2,072	497	628	581	546	2,253	2,319	2,435	2,556	2,582	2,608
SatRad %	80%	80%	80%	80%	80%	80%	80%	80%	80%	80%	80%	80%	80%	80%	80%	80%
Toyota Car Sales	2,218	360	411	526	474	1,770	437	480	519	484	1,919	1,975	2,074	2,177	2,199	2,221
XM %	0%	0%	0%	0%	0%	0%	50%	58%	58%	58%	56%	56%	56%	56%	56%	56%
Honda Car Sales	1,429	231	300	353	267	1,151	280	350	349	272	1,251	1,288	1,353	1,420	1,434	1,449
XM %	48%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%
Nissan Car Sales	951	175	173	233	190	770	212	202	229	194	837	862	905	950	960	969
XM %	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%
Hyundai Car Sales	402	96	109	138	93	435	116	127	136	95	474	488	512	538	543	549
XM %	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Ford Car Sales	2,002	323	450	461	443	1,677	392	525	455	452	1,825	1,878	1,972	2,071	2,091	2,112
Sirius %	40%	40%	40%	45%	45%	43%	45%	45%	45%	45%	45%	45%	45%	45%	45%	45%
Chrysler Car Sales	1,453	247	224	244	216	931	300	281	241	220	1,023	1,052	1,105	1,160	1,172	1,183
Sirius %	76%	79%	79%	75%	75%	77%	75%	75%	75%	75%	75%	75%	75%	75%	75%	75%
VW Car Sales	223	42	55	63	54	213	51	64	62	55	232	239	251	263	266	269
Sirius %	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%
Audi Car Sales	314	58	77	85	77	298	71	90	84	79	323	333	350	367	371	374
Sirius %	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%
BMW Car Sales	304	51	63	65	63	242	62	74	64	64	264	272	285	300	303	306
Sirius %	61%	60%	60%	60%	60%	60%	60%	60%	60%	60%	60%	60%	60%	60%	60%	60%
Mercedes Car Sales	225	40	45	50	55	191	49	52	50	56	207	213	224	235	237	240
Sirius %	63%	60%	60%	60%	60%	60%	60%	60%	60%	60%	60%	60%	60%	60%	60%	60%

Source: LCM Research estimates, company reports

**Exhibit 67. Sirius XM Pro Forma Key Ratios (\$ in millions, except per share)**

Period	2008	1Q09	2Q09	3Q09A	4Q09E	2009E	1Q10E	2Q10E	3Q10E	4Q10E	2010E	2011E	2012E	2013E	2014E	2015E
DaysOS/AR	32.0	21.5	16.9	18.8	18.8	20.6	18.8	18.8	18.8	18.8	19.8	19.6	19.6	19.6	19.6	19.6
DaysOS/AP	141.7	116.0	109.9	102.1	79.9	94.3	79.9	79.9	79.9	79.9	91.3	90.6	90.6	90.6	90.6	90.6
ROA	nm	1.9%	1.5%	2.0%	0.4%	1.5%	3.9%	5.2%	4.6%	1.7%	3.8%	4.3%	4.9%	5.7%	7.8%	8.3%
Debt/LTM EBITDA	(21.5)	69.5	12.7	7.9	6.9	6.9	6.6	6.1	5.3	4.9	4.9	4.1	3.0	2.0	0.9	0.0
Adj. ROIC (NOPAT/C)	nm	0.3%	0.4%	0.3%	0.0%	1.0%	0.5%	0.7%	0.6%	0.2%	2.0%	2.2%	2.5%	2.9%	4.0%	4.4%
<u>IC Calc.</u>																
Debt + Equity	\$3,317	\$3,586	\$3,682	\$3,371	\$3,288	\$3,288	\$3,352	\$3,440	\$3,520	\$3,548	\$3,548	\$3,453	\$3,521	\$3,397	\$3,854	\$4,149
Plus Acc. Losses	9,930	10,167	10,324	10,473	10,492	10,492	10,492	10,492	10,492	10,492	10,492	10,492	10,492	10,492	10,492	10,492
Invested Capital	13,247	13,753	14,006	13,844	13,780	13,780	13,844	13,933	14,012	14,041	14,041	13,946	14,013	13,890	14,347	14,641
<u>NOPAT Calc.</u>																
Operating Profit	(\$617)	\$35	\$28	\$37	\$7	\$107	\$70	\$94	\$84	\$32	\$279	\$313	\$351	\$406	\$570	\$648
Ix Items	10	1	27	3	0	30	0	0	0	0	0	0	0	0	0	0
Cash Taxes	0	0	(0)	0	0	(0)	0	0	0	0	0	0	0	0	0	0
NOPAT	(507)	36	55	39	7	137	70	94	84	32	279	313	351	406	570	648

Source: LCM Research estimates, company reports



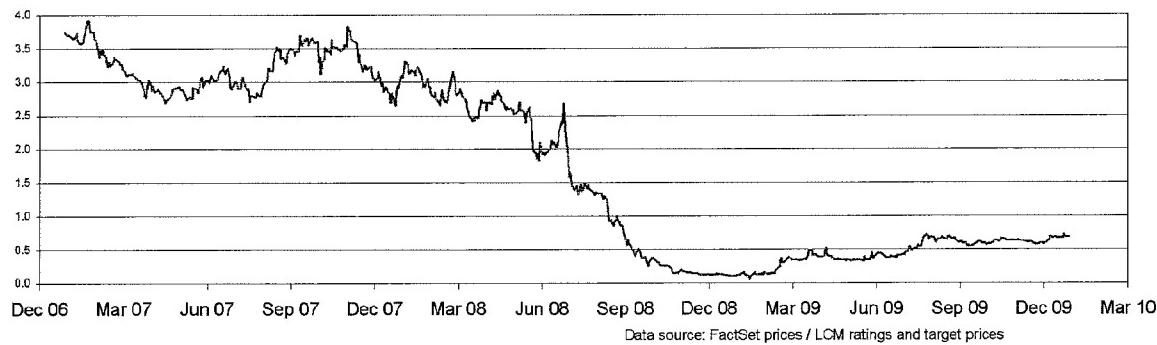
## **ANALYST CERTIFICATION**

All of the recommendations and views about the securities and companies in this report accurately reflect the personal views of the research analyst named on the cover of this report. No part of this research analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst in this research report.

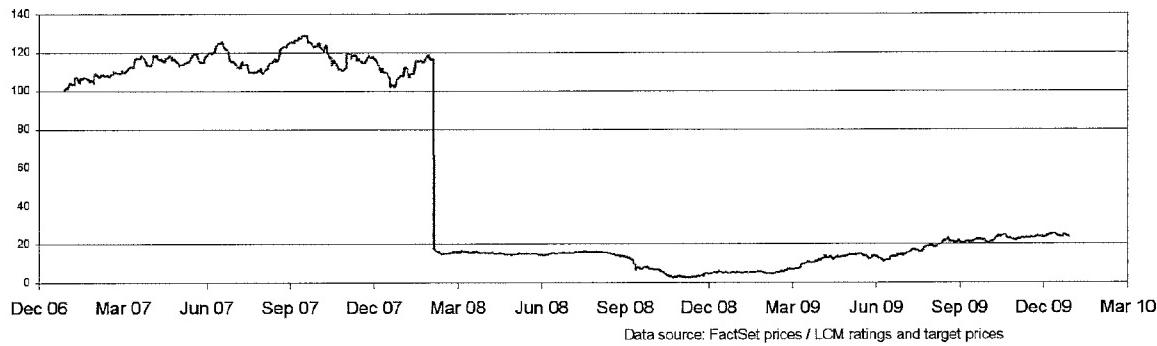
## **IMPORTANT DISCLOSURES**

Lazard Capital Markets LLC makes a market in **LCAPA, LINTA, LSTZA, and SIRI** securities.

**SIRI - Current Rating: BUY, Price Target: \$1.00**



**LCAPA - Current Rating: BUY, Price Target: \$50**

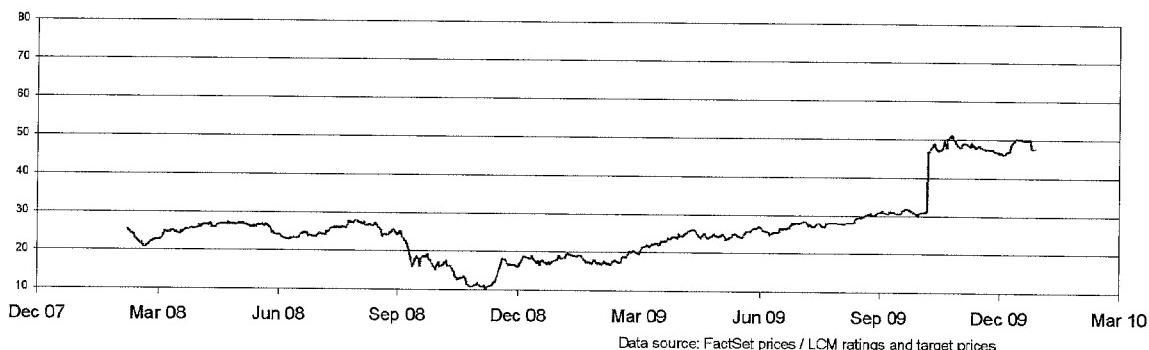




## LINTA - Current Rating: HOLD



## LSTZA - Current Rating: BUY, Price Target: \$73



DISTRIBUTION OF INVESTMENT RATINGS (AS OF 01/22/10)					
OVERALL DISTRIBUTION			BANKING CLIENT DISTRIBUTION*		
BUY	HOLD	SELL	BUY	HOLD	SELL
55%	43%	2%	16%	5%	0%

\*Indicates the percentage of each category in the Overall Distribution that were banking clients of Lazard Frères in the previous 12 months.

RATING	GUIDELINE	(return targets may be modified by risk or liquidity issues)
BUY	Expected to produce a total return of 15% or better in the next 12 months.	
HOLD	Fairly valued; total return in the next 12 months expected to be ±10%.	
SELL	Stock is expected to decline by 10% or more in the next 12 months.	



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